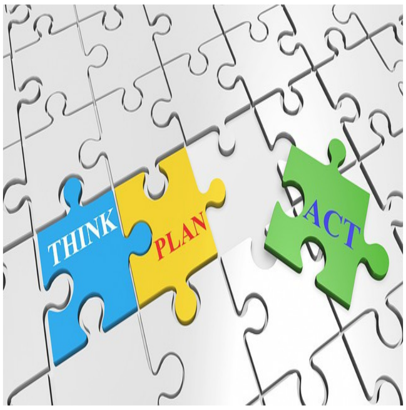

Buy This Insurance Company's Stock to Insure Your Portfolio Against Market Turmoil

Description

You're paying high premiums to insure your car and your house, and you may feel it's a waste of money if you don't reclaim often. But have you thought about investing in an insurance company? **Industrial Alliance Insur. & Fin. Ser.** (TSX:IAG) and **Intact Financial Corporation** (TSX:IFC) are two of the largest companies operating in the Canadian insurance sector. However, Industrial Alliance looks like a safer investment, and below are the reasons why.

Better financial results for Industrial Alliance

Last quarter was difficult for Intact Financial. The largest provider of property and casualty (P&C) insurance in Canada saw its earnings per share (EPS) decline by 3.72% to $1.08 per share. The EPS has been in negative territory for the last two years. In contrast, Industrial Alliance's EPS was $1.03 last quarter — growth of 7.74% compared to the same quarter last year. This was one of the strongest growth seen by a financial company.

The return on equity (ROE) for Industrial Alliance reached 13.26%, while the ROE for Intact was only 9.80%. Furthermore, Industrial Alliance's stock is cheaper with a P/E of 9.7 compared to a P/E of 13 for Intact.

The board of directors of Industrial Alliance announced on February 16, 2017 an increase of $0.03 in its quarterly dividend per common share, raising it to $0.35. This strong increase of 9.75% is a sign of the good financial shape of the company. There have been two big increases in dividends in 2016 as well.

Intact Financial raised its dividend about 10% during the first quarter of this year, but it had not raised it since the end of 2015. The faster progression in dividends payments for Industrial Alliance testifies its fast growth. Furthermore, Industrial Alliance's dividend yield is slightly higher than Intact Financial's; Industrial Alliance yields about 2.77%, and Intact Financial yields about 2.70%.

More diversification for Industrial Alliance

I think Industrial Alliance is less risky, since its business is more diversified. Industrial Alliance sells life and health insurance as well as P&C insurance, while Intact Financial only offers P&C insurance. Industrial Alliance also offers mutual funds and other financial products.

Intact Financial distributes insurance under the Intact Insurance brand through a network of brokers, including its wholly owned subsidiary BrokerLink, and directly to consumers through belairdirect. Industrial Alliance operates under 11 divisions which are all related to either insurance or investments. IA Excellence, IA Investia, and IA Clarington Investments Inc. are three of those divisions.

Industrial Alliance has been a major player in the Canadian market for a long time, and its activities cover all of Canada. It began to increase its presence in the U.S. market, where it saw an opportunity for growth, in July 2010, when it acquired American Amicable Life Insurance of Texas for US$143 million.

Intact Financial announced on May 2, 2017, that it will acquire U.S. Specialty Insurer OneBeacon Insurance Group, Ltd. for US$1.7 billion. However, since the deal is not completed yet, we cannot be entirely sure that the expected synergies will be realized.

Neither Industrial Alliance nor Intact Financial are very risky investments per se, but I would feel safer by investing in Industrial Alliance’s stock at the moment. Its cheap price, strong growth in earnings and dividends, as well as diversified activities are all factors that make me lean towards this stock.

CATEGORY

1. Investing

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1. Editor's Choice

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