Looking at Canada’s Insurance Sector

Description

Over the past six months, shares of a number of Canadian insurance companies have moved either sideways or fallen slightly. While insurance companies have offered investors fantastic long-term rates of return, it is essential for new investors to consider the next decade to have proper expectations.

Considering the current low interest rate environment, the challenges over the past decade have been significant for companies that take in float and invest the capital while waiting to pay it back out in the form of claims. Insurance companies may be the biggest benefactors from rising rates (from the Bank of Canada) or rising risk-free rates of return through government t-bills.

Over the past six months, the insurance company that held up the best is **Manulife Financial Corp.** (TSX:MFC)(NYSE:MFC). It has been flat (from a price perspective), and investors still received the quarterly dividend of $0.21 over that time. At a current price near $24.50, the dividend yield offered to new investors is approximately 3.4%. As of the most recent financial statements (March 31, 2017), the tangible book value amounts to $21.82 per share.

The second-biggest insurance company by market capitalization is **Great-West Lifeco Inc** .(TSX:GWO). Over the past six months, it has lost 3% while paying a quarterly dividend which yields 4.25% on an annual basis. While the company currently trades at a trailing 13 times earnings with a tangible book value of $16.49 per share, the current share price of almost $35 may not be the best option available to investors.

Next up is **Sun Life Financial Inc.** (TSX:SLF)(NYSE:SLF). At almost $46 per share, it offers investors a dividend yield of approximately 3.75% and trades at 11.2 times trailing earnings. The tangible book value per share is $27.59 per share as of March 31, 2017. Over the past six months, shares have lost close to 11% while still paying quarterly dividends.

Last up is the much smaller **Industrial Alliance Insur. & Fin. Ser.** (TSX:IAG). At $53.50 per share, it is the cheapest at a trailing price-to-earnings multiple of 10 times. The dividend yield, however, is only a little more than 2.5%, while the tangible book value is a solid $42.83 per share. Over the past six months, the price change has been close to negative 2%, but the dividends have been paid every quarter.

While the Canadian insurance industry offers investors a many different choices, it is important for investors to line themselves up with the right insurance company. While shares in the smaller Industrial Alliance Insur. & Fin. Ser. may offer higher potential for capital appreciation, the shares of Great-West Lifeco Inc. will probably be the least volatile while providing the most lucrative dividend at 4.25%.

Going forward, investors will need to ask themselves which insurance company they would like to invest in.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:MFC (Manulife Financial Corporation)
2. TSX:GWO (Great-West Lifeco Inc.)
3. TSX:IAG (iA Financial Corporation Inc.)
4. TSX:MFC (Manulife Financial Corporation)
5. TSX:SLF (Sun Life Financial Inc.)

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