This Overlooked Market-Beating Dividend Stock Is on Sale!

Description

When it comes to a rising interest rate environment, it's not just the big banks that are poised to benefit. Many Canadian insurance stocks are a compelling non-bank option that can provide both attractive yields in addition to a considerable amount of momentum, as higher rates act as a tailwind.

While Canada's big banks have always been a reliable foundation to any portfolio, it may be a wise decision for to further diversify across different sub-sectors within the financials to lower the amount of systematic risk that their portfolios will take on.

There are many great insurance stocks on the TSX, some of which don't receive the attention or coverage that they deserve. There are many reasons why insurance stocks may not be getting as much love as the big banks in spite of their attractive valuations and the more favourable higher-rate environment which lies ahead.

First, during the Financial Crisis, most insurance stocks got completely obliterated and have yet to recover to this day! Moreover, banks were quick to recover after the 2008 market crash reached a bottom.

When there's an economic crisis, insurance is usually one of the first things to be scrapped when individuals are trying to cut costs.

Although conditions eventually improved, there was no sense of real urgency to re-instantiate any "fully loaded" insurance plans. When times are tough, both life and travel insurance plans are really seen as "nice-to-haves" and not "must-haves" in the minds of consumers.

Second, on average, the banks have higher yields, and on a price-to-earnings basis, they're also cheaper. And let's not forget that they belong in the "too-big-to-fail" category.

As a result, many investors, like insurance customers prior to the recession, may not have given the insurance businesses a second look.

Consider **Industrial Alliance Insur. & Fin. Ser.** (TSX:IAG), a diversified Canadian insurance company that has been more resilient than that of many of its peers.

The stock has recovered from the 2008 crash, and amid the turmoil it kept its dividend static until hiking it a few years down the road. Since 2013, Industrial Alliance has grown its dividend by ~55% — a streak that will likely continue looking forward, as higher interest rates will positively affect net income.

In addition, the company was able to return to a double-digit ROE following the Financial Crisis at a much faster rate than many of its peers in the space. Industrial Alliance is less geographically diversified than many of its peers, and that's a major reason why shares are substantially cheaper than the industry average and its five-year historical average.

The stock currently trades at a 9.8 forward P/E, a 1.2 P/B, a 0/5 P/S, and a 8.8 P/CF, all of which are lower than the company's five-year historical average multiples of 11.6, 1.3, 0.6, and 18.3, respectively. Moreover, the company also has a ridiculously low leverage ratio at 22.4% as of Q4 2017, which is substantially lower than the industry average leverage ratio of 27.5%. This allows the company more flexibility than your average insurance firm.

Bottom line

When it comes to insurance firms, Industrial Alliance is one of the cheapest options available to investors today. The 2.87% dividend yield is below average, and the lack of geographical diversification versus some of its peers is a major turn-off for investors; however, I believe many are ignoring the prudent nature of the management team and the stock's relative margin of safety at current levels.

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