A Quality Financial Stock That Can Beat the Banks

Description

The Big Six Canadian banks aren't the only quality financial companies in the country. Namely, I'm talking about **Intact Financial Corporation** (TSX:IFC), which has outperformed the market in the long run.

Comparing a stock's performance to that of the market since before the last recession is a good way to go, because that was before everything started falling.

Since then, an investment in Intact Financial has delivered total returns of 10.8% per year, while the U.S. market (using **S&P 500** as a proxy) has delivered 7.2% per year. I compare Intact Financial with the U.S. market instead of the Canadian market, because the former tends to outperform the latter.

In the same period, $10,000 invested in Intact Financial would have returned a bit more than $28,800, which includes ~$4,450 of dividends — almost double the income generated from the same investment in **SPDR S&P 500 ETF Trust** (NYSEARCA:SPY), an exchange-traded fund that tracks the performance of the S&P 500.

How Intact Financial beats the S&P 500

Since right before the last recession, Intact Financial has consistently increased its dividend every year, which comes out to a compound annual growth rate of 9%.

The same thing can’t be said for the SPY ETF. During the recession, the fund cut its dividend twice. Since it holds a basket of stocks, if the underlying dividend companies cut their dividends, the fund will cut its distribution correspondingly. As a result, in the same period, the fund’s dividend growth came out to a compound annual growth rate of ~5.8%.

The fund currently offers a ~1.8% yield, while Intact Financial offers a 2.9% yield. Intact Financial beats SPY by having a juicier yield and the ability to continue growing its dividend.

Returns come from dividends and price appreciation. Investors can get more dividends from Intact Financial, which is winning half of the battle. Next, investors should make sure they buy the stock when it’s at a good value.

Is Intact Financial a good value today?

Intact Financial stock has experienced a meaningful dip of ~10% from its high. At under $97 per share, the largest provider of property and casualty insurance in Canada trades at a price-to-earnings ratio of ~16.7, while the analyst consensus estimate from **Thomson Reuters** thinks the insurer will grow its earnings per share on average by ~15.9% per year for the next three to five years.

So, Intact Financial is trading at a good valuation right now. In fact, the analysts have a mean 12-month price target of $110 on the stock, which represents upside potential of ~13%.

Investor takeaway

Intact Financial is a quality financial stock, which can outperform the Canadian banks given its higher growth prospect, but investors must be willing to accept a lower yield of ~2.9% for starters.

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1. TSX:IFC (Intact Financial Corporation)

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