Why This Dividend-Growth Underdog Is the Best of its Breed

Description

Industrial Alliance Insur. & Fin. Ser. (TSX:IAG) (a.k.a., IA), Canada's fourth-largest insurance player, and unlike its big three brothers, is probably a name you're unfamiliar with, unless you're from Quebec, where a majority of the company's total revenues are derived.

The underrated company offers a wide range of insurance products, most notably health and life as well as a promising wealth management business following the recent acquisition of HollisWealth. The stock of IA has outperformed many of its peers over the last several years and, most remarkably, its dividend remained intact during the depths of the financial crisis — a time where many lifecos were under tremendous stress and needed to slash dividends by a considerable amount.

Moreover, IA was the first out of the gate following the 2008 financial disaster, raising its dividend before many of its competitors in the battered Canadian insurance space. There's no question that IA's outperformance of many of its bigger brothers is due a great deal to management's conservative approach to investing, which has paid major dividends through thick and thin.

Management is committed to achieving a 10% annualized EPS growth rate through 2019, and with a promising growth outlet in the U.S., I think many investors are unfairly shunning IA just because it's less geographically diversified than its peers. IA has a dominant position in Quebec, and although it appears that insurance products are really commoditized, it's important to remember that Quebecers are quite loyal when it comes to firms that have built a reputation in the province.

While there may be minimal switching costs when it comes to insurance or wealth management services, IA has created a reputation for itself through the decades of service to the Quebecois, and thus it carries a greater degree of brand loyalty than non-regional insurance providers.

Quebec, unlike many other Canadian provinces, has a unique culture of its own, and with that comes a different taste in brands versus any other Canadian province. Think about the loyalty to **Quebecor Inc.**, **St-Hubert**, and **Alimentation Couche-Tard Inc.** brands. Sure, there are alternatives, but these brands have served and grown in Quebec and have become household names.

Bottom line

IA’s track record really speaks for itself. I believe it has the capacity to continue to outperform its peers over the next few years, and given the stock trades at a mere 9.7 forward times earnings, investors would be wise to pick up shares of what I think is a heavily discounted company that doesn’t get the respect it deserves from Canadian investors.

Collect the ~2.8% dividend yield and enjoy the positive effects of rising interest rates instead of fearing the negative effects they could have on your income portfolio.

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