Is It Time to Buy Intact Financial Corporation?

Description

Intact Financial Corporation (TSX:IFC) is the largest provider of property and casualty insurance in Canada with nearly $10 billion (of which 80% is in Canada) in annual direct premiums written and roughly a market share of 17%.

Intact Financial stock has pulled back 11% from its 52-week high. It’s a meaningful dip for a quality company. Should you consider picking up some shares?

Long-term performance

If you’d bought the stock right before the Financial Crisis at the end of 2007, you would have seen your investment deliver an annualized rate of return of ~10.8%. That’s a pretty good return for a quality company and given that it just experienced a meaningful dip.

To be more concrete, a $10,000 investment would have transformed into north of $28,900, which includes dividends received and price appreciation. About 16% of the returns came from dividends. In other words, it’s important to buy the stock at a good valuation, because most returns will come from price appreciation.

Intact Financial has been a consolidator in the industry as well. So far, it has made 16 acquisitions since 1988. Since 2010, the company has had returns on equity (ROE) of +9%, while its ROE was 11.75% in the trailing 12 months.

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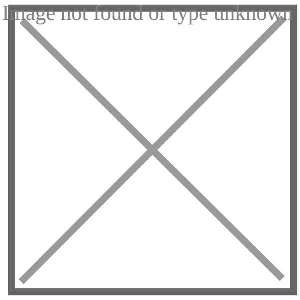

Valuation and returns potential

At ~$95.50 per share, the insurer trades at a price-to-earnings ratio of ~16.7, while the analyst consensus estimate from **Thomson Reuters Corp.** thinks the insurer will grow its earnings per share on average by ~15% 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 $109 on the stock, which represents upside potential of ~14%. So, the stock is good for an estimated total return of ~16% for the next 12 months (since the first-quarter dividend was paid out already).

Dividend growth

At the recent quotation, Intact Financial offers a dividend yield of +2.9%. The insurance company has a track record of growing its dividend per share every year. It has increased its dividend for 13 consecutive years with a five-year dividend-growth rate of 9.9%.

Its most recent dividend hike in the first quarter was ~9.3%. Its payout ratio is estimated to be ~47% this year. So, investors can consider Intact Financial's dividend to be safe and continue to grow over time.

Investor takeaway

Intact Financial aims to outperform the industry ROE by at least 5% every year. So, if there's an insurer in the space that you should consider, Intact Financial should be at the top of your list. For the next 12 months, under normal market conditions, investors can expect total returns of ~16% from a purchase today.

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