Thanks to Old Man Winter, This Stock Is Now a Buy

Description

Evaluating property and casualty insurance companies can be difficult. Financials can be negatively impacted by one-time events such as environmental catastrophes.

Case in point: **Intact Financial Corp.** (TSX:IFC). Canada's largest property and casualty insurer has struggled in the first half of 2018. Now trading near 52-week lows, Intact has lost 8.22% year-to-date.

This poor performance is due in large part to severe Canadian winter conditions. In the first quarter, earnings-per-share (EPS) dropped 37% year-over-year. Intact attributed a drop in EPS of $0.70 to old man winter.

This isn't the first time and it certainly won't be the last. In 2013, the company took on significant losses thanks to the massive floodings in Calgary, Alberta. Heavy precipitation in Ontario and Quebec impacted results in the second half of 2017.

Each time the company's share price took a hit, and it has rebounded like clockwork. Now is the perfect opportunity to buy.

Direct premiums written

In 2017, Intact made a strategic decision to enter the U.S. market in a big way with its OneBeacon acquisition. The foray south of the border has helped the company diversify outside Canada. In the first quarter, OneBeacon's strong performance offset its Canadian operations.

Net premiums written grew 20% YOY, driven almost entirely by OneBeacon. Another bright spot was the 5% growth in premiums from the commercial industry, where momentum is increasing.

Combined ratio

Even with the impact from severe winter conditions, the company's combined ratio remained below 100%. What is the combined ratio? It is a common metric used to evaluate an insurance company's performance.

A ratio above 100% is a negative and means that the insurer is operating at a loss. A ratio below 100% means it is operating at an underwriting profit. The lower the percentage, the less the company is dependent on investment income to compensate for underwriting losses.

In the first quarter, Intact's Canadian operations came in at 99.8%, while its U.S. business achieved an impressive 95.3% combined ratio.

Growing dividend

Intact is a Canadian Dividend Aristocrat, having raised dividends for 13 consecutive years. Thanks to its most recent share price weakness, its yield of 2.94% is above historical averages.

The company last raised dividend by 9.37% and its three-, five- and ten-year dividend growth rates all hover around 10%. This type of consistent growth is hard to come by and is expected to continue. With a payout ratio of around 50%, Intact has ample room to continue growing its dividend.

Good entry point

Intact's share price weakness has provided investors with a good entry point. In 2019, the company is expected to post earnings of $7.62 per share. Should the company trade at a price-to-earnings ratio of 15, which is below where it currently trades, it would imply a share price of $114.30. This is equal to 20% upside from today's share price.

Intact has a growing dividend, increasing premiums, and a best-in-class return on equity of 12.4%. What's not to like?

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