3 Reasons This Insurer Ought to Be in Your TFSA or RRSP

Description

Any time you're considering buying a stock for a tax-free account like the TFSA or a tax-deferred account like the RRSP, it's critically important to consider the long-term financial strength of the investment, because any capital losses in either account can't be used to offset capital gains.

Therefore, you want to own stocks in your TFSA or RRSP that have these three attributes: 1) a good dividend yield that grows by more than 8% a year; 2) a diverse group of revenue streams; and 3) is growing its bottom line by at least 10% annually.

Intact Financial (TSX:IFC), the largest property and casualty insurer, is such a stock.

The dividend yield is reasonable

Intact announced its Q2 2018 earnings July 31, at which time it raised its quarterly dividend by 9% to $0.70 a share. Currently yielding 2.7%, Intact has raised its annual dividend an average of 9% over the past nine years according to Fool contributor Kay Ng, a big proponent of low-risk dividend-growth stocks.

I've been a fan of Intact Financial since first recommending its stock last October after reading an in-depth article about CEO Charles Brindamour, who's delivered for Intact shareholders. Since taking the top job January 1, 2008, Intact stock has achieved an annualized total return of 12% over the past 10 years, more than double the S&P 500 and almost as good as Prem Watsa's returns at **Fairfax Financial**, because of Brindamour's focus on profitable underwriting.

To increase dividends at an above-average growth rate each year, you've got to have growing profits. Intact does and then some.

Diversity helps

Like any insurance company, you have the insurance business, which is all about writing as much quality premium business as is possible without it coming back to nip you it the butt in the form of expensive claims, or, at the very least, minimizing the cost of those claims, so it doesn't put you under.

Over the past decade since Brindamour has run Intact, it's had only one quarterly underwriting loss (2013), providing investors with a low-risk proposition.

While some in the investment industry aren't fans of Intact's purchase of OneBeacon in the U.S. — it paid $2.3 billion for the U.S. specialty insurer in September 2017 — I think it helps diversify both the company's geographic and product line coverage.

"IFC has underperformed its Canadian financial services peers since we downgraded it in October 2017," said Desjardins Securities analyst Doug Young August 1. "While we still have concerns with the Canadian personal auto market and OB [OneBeacon], we believe these are better reflected in the stock today."

Up almost 10% in the last month, it looks as though the analyst was bang on the money.

Growing its bottom line

The insurance business is notoriously choppy when it comes to earnings, so to expect Intact or any other firm to increase its profits by 10% annually every year is probably asking too much.

Having said that, Intact's net income has grown from $508.3 million in 2007 to $792.0 million in 2017, with several peaks and valleys in between, which has resulted in a combined ratio alternating between the low 90s in good years to the high 90s in bad ones.

While the underwriting profits have moved around, Intact's investment income has remained constant in recent years between $400 and $450 million, helping mitigate any losses from unexpected or overly hard catastrophes.

This financial flexibility allows Intact to increase its annual dividend payment by more than the banks and other TSX-listed insurance companies, providing investors with an added incentive to own its stock.

The bottom line

Since taking the helm in 2008, Brindamour has made four significant acquisitions, including OneBeacon in the U.S. and AXA here in Canada.

As we look to 2019, I can see further acquisitions south of the border, as it looks to grow its U.S. business.

I see stable growth for Intact in the years ahead.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:IFC (Intact Financial Corporation)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

Tags

1. Editor's Choice

Date
2025/07/21
Date Created
2018/08/28
Author
washworth