A Non-Bank Canadian Financial Stock for Your TFSA Fund

Description

Financial stocks are an important part of any balanced portfolio.

Let's take a look at **Intact Financial Corp.** (TSX:IFC) to see why it might be an interesting pick.

Growth

Intact sells property and vehicle insurance to people and businesses. The company is Canada's largest provider of property and casualty insurance, reaching customers through broker partnerships and its own direct-sell operations offering products under the Intact and belairdirect brands.

The Canadian business is strong, but the big potential arguably lies south of the border. Intact is building its U.S. presence via specialty insurance provider OneBeacon Insurance Group, which was acquired in 2017 for US$1.6 billion. Going forward, investors should see Intact expand its reach in the small to midsize business segment in the country.

Well capitalized

Intact has a strong balance sheet. As of June 30, the minimum capital test ratio (MCT) was 201% and the debt-to-total capital ratio had decreased to 22.5%. Management intends to get the metric down to 20% through the end of 2019.

Book value rose 15% to $48.64 in Q2 compared to the same period last year, supported by strong earnings and the equity financing of the OneBeacon deal.

Decent earnings

Intact reported steady Q2 2018 results compared to Q2 2017. In Canada, personal auto premiums slipped 2%, as rate increases resulted in lower growth. Personal property premiums rose 2% supported by higher prices. On the commercial side, Intact generated 7% growth amid solid performances in both auto and the property and casualty segments.

In the United States, the company is continuing to integrate the new assets and is making progress on efficiency improvements. Organic growth resulted in a 2% increase in premiums in the quarter.

Insurance companies make money by investing the funds they receive from premiums. Intact generated net investment income of $134 million in Q2 2018, representing a 28% increase over Q2 2017.

Overall, net operating income increased 4% to $201 million. Operating return on equity was unchanged at 11.9%.

Dividend

Intact has a strong track record of dividend growth. The current payout provides a yield of 2.7%.

Risks

Higher catastrophe losses can put a dent in earnings. Floods and forest fires, in particular, have hit Canadians hard in recent years and ongoing changes in weather patterns could make the major events more frequent.

On the competition side, there is always a threat from the big Canadian banks, who currently have to keep their insurance operations separate from their banking relationships with customers. If the regulations change, the banks could take a big bite out of Impact’s market share.

Should you buy?

Intact has delivered steady investor returns in recent years, a trend that should continue. The move into the United States opens up significant growth opportunities in a highly-fragmented market, particularly in the SME segment.

If you are searching for an alternative financial stock to add to your portfolio, Intact looks like a solid buy-and-hold pick.

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