

Is Intact Financial Corporation (TSX:IFC) a Buy?

Description

Intact Financial Corporation ([TSX:IFC](#)) is the largest property and casualty insurer in Canada. The company's operation across North America are solidly established. Yet, there's good reason to believe that the best is yet to come for IFC.

With a current P/E ratio of 21.89 – which is higher than the average for companies within this industry – IFC's earnings are expected to grow faster than that of its competitors. Here is why I think IFC is a good option to consider for investors.

Profitability

Most insurance companies do not generate significant profits from the premiums they collect from customers. These premiums are gathered into a pool of funds, which is then invested into low risk securities. The lion's share of an insurance company's profits come from interest income, and most are happy to collect just enough premiums to cover their claims. The combined ratio measured an insurer's profitability by comparing expenses and losses with earned premiums.

During last year's third quarter, IFC recorded a total combined ratio of 96.3, which means the company collects more than enough premiums to cover claims. This figure is excellent by industry's standards. The company has consistently kept a combined ratio between 100, although it has increased slightly over the years. In 2015, the company had a combined ratio of 88.6% at year end, which shows an increase of almost 8% since then.

IFC's excellent profitability is backed by the company's increasing market share. During the third quarter, the company increased net earned premiums by 18%. This increase was driven primarily by the company's acquisition of the U.S.-based specialty insurer OneBeacon in 2017.

OneBeacon is a specialty insurer with over \$2 billion in annual premiums. This acquisition allows IFC to enter a segment of the insurance industry in which it did not have a strong market position. The acquisition of OneBeacon also provides more avenues for growth for IFC.

Reason to worry?

During last year's third quarter, IFC's domestic operations took a big hit. The year-to-date net income decrease of 17% was due primarily to negative results in its Canadian segment. The company's claims increased by 1.6% and underwriting income decreased by 104% in Canada.

IFC's management blamed a higher than average number of accidents and other unforeseen events (often weather related) for the negative results, which isn't out of the ordinary. Insurance companies often incur substantial losses due to unforeseen events. It is, however, something investors should consider.

With a current beta of 0.73, IFC's stock is less volatile than the market.

The bottom line

IFC's past stock performance shows steady growth, which will likely continue as the company continues to increase revenues and profits. IFC's earnings will not always be derailed by unforeseen events either. The insurance company seems like a good option for investors at the moment.

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