The RRSP Deadline Is Fast Approaching! Give Your Retirement a Boost With This Defensive Dividend-Growth Stock

Description

With the RRSP deadline fast approaching, you may be looking for the right investments to buy with your new contribution.

With a 2.58% dividend yield, a solid competitive position in the insurance industry, and solid management, **Intact Financial** (TSX:IFC) offers investors stable income as well as significant potential capital appreciation.

Growing dividend, strong fourth-quarter results

In the company's latest results, the fourth quarter of 2018, EPS of $1.93 came in well above expectations, as underwriting income and investment income were both stronger than expected.

The all-important combined ratio, which is calculated by dividing losses plus expenses by the earned premiums, measures the profitability and financial health of an insurance company. The lower this ratio is, the better, and if it's above 100% it means that the company is paying more out in claims than it is receiving in premiums.

This quarter, Intact's combined ratio came in at a very strong 91.7%, which compares very favourably to last year's ratio of 92.6%.

As a result of this strength, management increased the dividend by 9% to $3.04.

Strong fundamentals and competitive positioning

Intact is the largest provider of property and casualty (P&C) insurance in Canada with a market share of almost 20%.

The Canadian P&C industry is a mature market, and, accordingly, Intact has grown mostly through acquisitions to the leading position it has today, with approximately $10 billion in direct premiums written and a $15 billion investment portfolio.

With a successful acquisition history, which has given the company scale and size to drive down costs and bring up returns, Intact recently ventured into the U.S. with the acquisition of U.S. specialty insurer OneBeacon Insurance Group for $2.3 billion.

The acquisition is expected to generate top- and bottom-line growth opportunities from broader geographic and business mix diversification.

Strong future

Looking to the future, investors have much to be excited about.

Intact plans to continue to leverage its strong balance sheet to continue to be a consolidator in the P&C insurance industry. The company continues to target acquisitions of $500 million or more in direct premiums written, with an acquisition target internal rate of return of 15%

The company's balance sheet remains strong with a debt-to-cap ratio of under 22%.

Final thoughts

In summary, Intact offers investors a defensive, reliable, high-quality name that has a proven history of value creation.

Management expects that 15-20% market share will change hands in the next five years. And given that barriers to entry are high in this business, this leaves Intact well positioned to continue to be the consolidator in Canada and in the U.S.

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