A Super-Cheap Dividend Stock for Your Passive-Income Fund

Description

Who says you need to pay a pretty penny to get robust dividends?

Industrial Alliance (TSX:IAG) is a Canadian insurer and diversified financial firm that has one of the cheapest stocks on the entire TSX index.

The 3.62% dividend may not seem like much when you consider that a 4-5% yield is standard for most financials. When you have a look under the hood, however, it's more apparent that Industrial Alliance also has one of the more conservative payout ratios out there.

If the company wanted to, it could easily raise its dividend to match or even exceed that of its bigger brothers in the insurance scene. Industrial Alliance's management team doesn't seem to want to engage in a competition among the financials to see who's got the biggest dividend. And that's a good thing if you're looking for the right blend of dividends, growth, and relative stability.

With a payout ratio that's usually well below the 30% mark, it's apparent that there's an aura of conservatism ingrained in Industrial Alliance's corporate structure. The company doesn't try to overextend itself with its dividend, investment approach or any other part of its business, and because of this, the firm has managed to fare better than most other non-bank financials in times of turmoil. Just have a look at a longer-term chart, and you'll see that Industrial Alliance is one of the few Canadian insurers to move above its pre-recession highs.

Yes, a bigger dividend would be more attractive to prospective investors. The lower-than-average dividend yield, which has averaged 2.7% over the past five years, along with the firm's smaller $5.4 billion market cap, has likely acted as a deterrent to most income-oriented investors.

For those looking for deep value, robust dividend growth, and top-notch risk management for a non-bank financial, though, it's easy to forgive Industrial Alliance for its small dividend. It may be small, but it's far more durable, and it's subject to a higher magnitude of growth over the long term. Management knows that the insurance and financial services businesses can be fickle in times of economic recession, so they're just playing it safe by maintaining a higher degree of financial flexibility. That's a shrewd decision, if you ask me.

Back to the valuation. At the time of writing, the stock trades at an 8.5 forward P/E, a one times book, and a 0.4 times sales, all of which are considerably lower than the five-year historical average multiples of 11.4, 1.3, and 0.6, respectively. While financial stocks are indeed in a rut, I think Industrial Alliance's valuation is too good to pass on as it's a historically cheap stock that recently became much cheaper.

The 3.62% yield is also pretty bountiful, and when you factor in the potential for constant raises, Industrial Alliance should be seen as a preferred non-bank financials for your passive-income fund.

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joefrenette