TFSA Investors: A Safe Dividend Stock That's Been Unjustly Penalized

Description

Industrial Alliance (TSX:IAG) stock doesn't nearly get the amount of respect it deserves. It's a well-run, conservatively managed firm that's arguably one of Canada's most premier non-bank financials out there, yet it's traded at a considerable discount to its peer group, and undeservedly so.

Sure, the stock isn't as big of a bargain as it was when I pounded the table on the name as it touched down with its 52-week low, but I still think it's embarrassingly cheap, even given today's financial sector headwinds.

At the time of writing, the name trades at 9.1 times next year's expected earnings, 1.1 times book, 0.5 times sales, and 8.7 times cash flow, all of which are considerably lower than the respective five-year historical average multiples. Moreover, Industrial Alliance trades at a discount to the industry average, not because it's an overly conservative, slower-growing play, but because the dividend is frail in comparison to its peers in the space.

Despite the single-digit P/E multiple, Industrial Alliance sports a respectable, albeit small 3.37% dividend yield, which is a turn-off for the income-oriented investors out there. Most investors on the hunt for Canadian financial stocks are probably more than enticed by the sizable dividend yields, so Industrial Alliance immediately has a disadvantage relative to its peers when it comes to wooing investors.

Moreover, Industrial Alliance is a comparatively smaller company — a mid-cap with a $5.7 billion market cap. What the company lacks in size relative to its bigger brothers, it makes up for in superior corporate structure.

In prior pieces, I've highlighted Industrial Alliance's "aura of conservative practices" and encouraged investors to forgive the stock for its lower dividend because the company "doesn't try to overextend itself with its dividend, investment approach or any other part of its business" and noted that the downside risk was well less than that of its more aggressive peers.

"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." I said.

Since when does shrewd decision-making and underwriting result in a penalty in the form of a single-digit P/E multiple?

If you're looking for a solid non-bank financial that reeks of value, look no further than Industrial Alliance. You're getting a heck of a lot (insurance and wealth management assets) for just 0.5 time sales. Although the dividend stinks, I think it has the most room to run over the long term.

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