2 Financial Stocks: 1 to Buy, 1 to Hold

Description

Banks aren't the only financial stocks on the Toronto Stock Exchange. Insurance companies like **Intact Financial** (TSX:IFC) and **Fairfax Financial Holdings** (TSX:FFH) are a key component as well. Currently, one is a better buy for incredible returns.

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Intact Financial

Intact is the largest home, auto, and business insurer in Canada. It takes the lead with roughly 16% of market share. The industry remains fragmented, so there are opportunities for further growth through acquisitions.

To date, Intact has collected a number of brands, including Belair, Brokerlink, and OneBeacon, which is its U.S. platform. Intact grows through its businesses. Last year, its direct premiums written were diversified across personal auto (37%), commercial lines in Canada (26%), personal property (22%), and commercial lines in the U.S. (15%).

Intact's annual direct premiums written are now $3 billion, while its combined ratio remains in the low 90s, meaning that its profitability is top-notch in the industry. In fact, it has consistently achieved returns on equity that are 5% greater than the industry average.

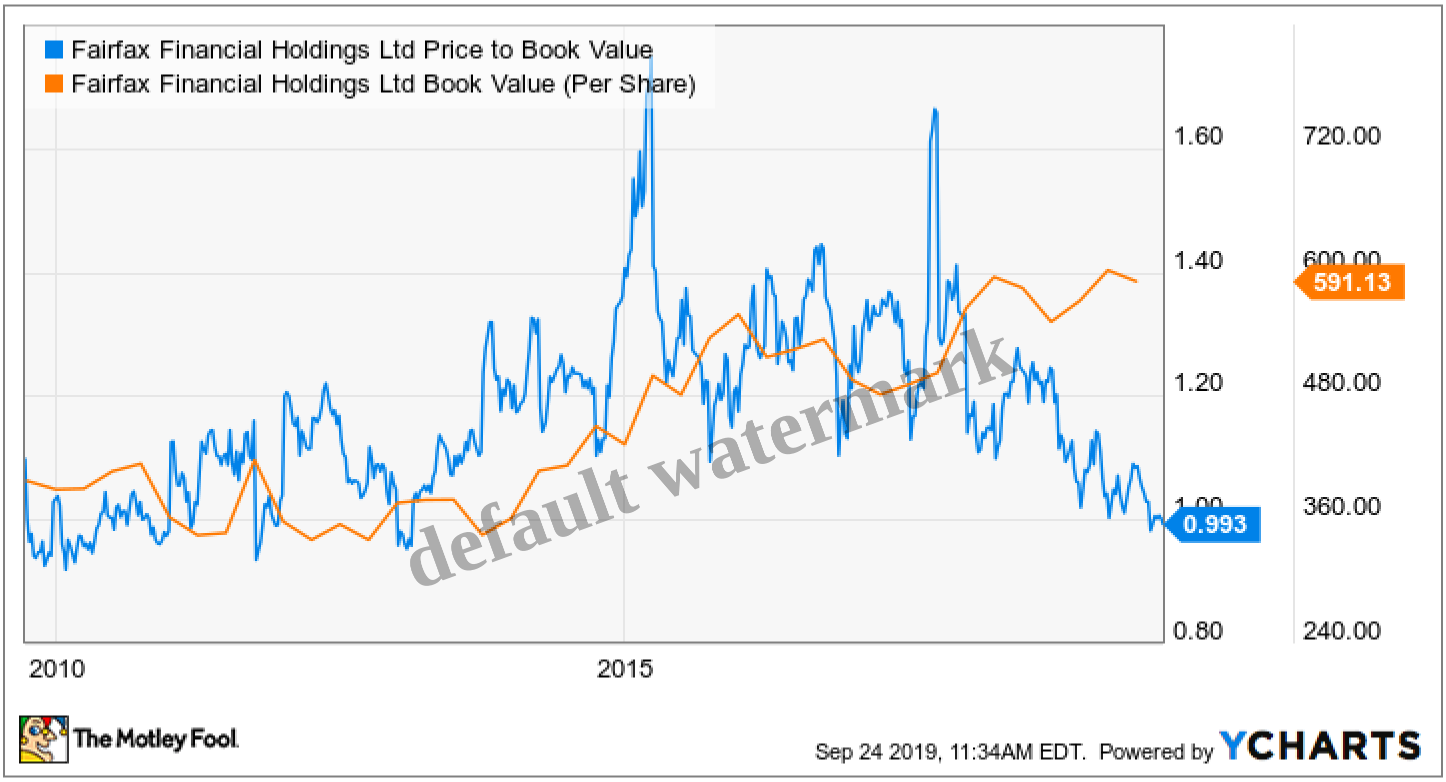
As a result, it has been increasing its net operating income by 10% per share. This growth has translated into a dividend growth rate of 9% over the past 12 years.

The quality stock is just about fully valued and offers a safe yield of 2.3%. The stock is a hold currently. Should the stock correct by 5% to 15%, interested investors should consider buying.

Fairfax Financial Holdings

Fairfax offers a similar yield to Intact, specifically, 2.1%, but it trades at a much better valuation.

The company has increased its book value per share over time. However, there's a huge disconnect between the stock price and what the business is really worth, such that it trades at [a dirt-cheap valuation]() of less than its book value.



FFH Price to Book Value data by YCharts

Based on a more normalized price-to-book, the stock should trade closer to $739 per share, which implies upside potential of approximately 26%.

Investors should note that Fairfax is a more complex company than most. It uses the float it generates from its subsidiary insurance businesses and the income/gains from its investment portfolio for reinvestment.

Its investment portfolio is valued at about US$39.5 billion. As well, it's highly diversified with cash, bonds, preferred stocks, common stocks, derivatives, and a meaningful exposure (US$2.75 billion) to India and Africa via stakes in **Fairfax India** and **Fairfax Africa**.

As a result, Fairfax's earnings are highly unpredictable, as there can be big swings up or down depending on how it fares in the financial markets.

Foolish takeaway

For total returns investors, Fairfax today offers a much better opportunity than Intact. At the current valuation, FFH stock is simply low-hanging fruit.

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1. Dividend Stocks
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2. TSX:IFC (Intact Financial Corporation)

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Date
2025/07/25
Date Created
2019/09/24
Author
kayng