TFSA Investors: 1 Financial Stock to Diversify Your Portfolio

Description

Shares of **Intact Financial** (TSX:IFC) have been on a roll this year. The stock is up 37% year to date, easily outperforming peers and indices. IFC has returned 24.6% in the last 12 months and has gained 82% in the last five years.

IFC is a holding company that provides property and casualty insurance (P&C). It offers insurance solutions across the car, home, and business verticals.

Strong revenue growth

IFC has managed to grow its sales at a robust rate over the years. The company has increased revenue from $7.95 billion in 2016 to $9.71 billion in 2018. Analysts expect IFC sales to increase by 4.3% to $10.2 billion. However, this growth is set to accelerate to 9.9% in 2020.

Analysts expect IFC to increase earnings per share (EPS) by 6.1% in 2019 and 32.5% in 2020. Compare this to IFC's forward price-to-earnings multiple of 16.6, and we can see that the stock is still a tad undervalued, despite its impressive run over the past year.

IFC also has a forward dividend yield of 2.3%.

Market leader in P&C

According to MSA Research data, IFC is the largest provider of P&C insurance in Canada with $10 billion in annual direct premiums written, indicating a market share of 17%. This provides IFC with a competitive edge in terms of business scale and expertise.

The company aims to leverage its multi-channel distribution strategy and maximize growth with a strong focus on appealing to customer preferences across segments.

IFC generates close to 87% of sales from Canadian markets. The U.S. accounted for 14.6% of total sales in 2018. Now, with the US$1 billion acquisition of The Guarantee Company of North America, IFC is looking to gain traction in the U.S. as well.

Strong shareholder returns

One reason why IFC should attract TFSA or long-term investors is its strong performance over the years. IFC has increased dividends each year since its IPO back in 2009.

Its quarterly dividend per share has risen from $0.32 in 2009 to $0.70 in 2018, a compound annual growth rate of 9.1%. IFC expects to increase dividends by 8.6% to $3.04 per share in 2019.

Intact Financial has a strong record of capital generation and disciplined deployment. This has allowed it to pursue acquisitions as well as return capital to shareholders. The company also has a strong record of achieving its financial objectives.

One of the company's primary financial goals is to exceed the industry return of equity (ROE) metrics by at least 500 basis points. According to the company presentation, IFC has outperformed the industry ROE by an average of 650 basis points in the last 10 years and by 890 basis points in 2018.

The verdict

Now, after gaining significant market share in Canada, IFC aims to consistently improve customer engagement and satisfaction. This is a key metric for insurance and mortgage companies. A satisfied customer base leads to recurring revenue which helps companies to stabilize sales, especially in a downturn.

In the next 12 months, IFC expects growth across the personal auto, personal property, and commercial business segments. IFC remains a solid company trading at a reasonable valuation that investors can bank on for years to come.

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