This Insurance Stock Will Live Up to Its Name During a Downturn

Description

Every sensible human being on earth is insured: life, cars, medical, home, mobile phones, appliances and so on. If we rely on insurance to get us out of a rut in real life, it only makes sense that we rely on insurance stocks to get us out of an economic rut in the market.

With the recession looming large, insurance stocks are a great financial moat to count on. One such stock is **Industrial Alliance Insurance** (TSX:IAG). At a market capitalization of just $5.7 billion, IA is significantly smaller than other giants in the Canadian insurance market such as **Great-West Lifeco Inc** and **Sun Life Financial Inc.** However, IAG still manages $187 billion in assets with over 4 million clients.

In Canada, IA Financial Group has four main lines of business, which are individual insurance and individual wealth management, which address the needs of retail customers; and group insurance and group savings and retirement, which address the needs of groups and businesses. A fifth line of business is the company's U.S. operations.

The numbers

Business for the second quarter of 2019 was good, with net income for IA clocking in at $187.1 million compared to $165.2 million in the second quarter of 2018.

IA is targeting a growth rate of 10% in average annual growth in earnings per share until 2022. In 2018, the EPS was $5.59 compared to its guidance of $5.20 to $5.60. For 2019, the midpoint of the EPS guidance target range is 10% higher than the previous year. The company is on track to meet its target with an EPS of $3.09 after the first six months of 2019 compared to $2.73 in the same period of 2018.

The company trades at a forward price-to-earnings ratio of 12.3 and has a dividend yield of 3%. Compare the forward P/E multiple to its five-year estimated earnings growth of 6.9% and we can see that the stock's valuation is reasonable.

The verdict

IA stock is also trading at 0.5 times sales, and just 1.2 times its book value. As Fool contributor Joey Frenette opined, IA should be trading at a much higher multiple. Three out of nine analysts covering IA have a "buy" rating, while five rate it a "buy" and one recommends a "sell".

The one reason IA is not a favorite of the masses is because of its low dividend yield. At just 3%, IA is not a cash cow. While a dividend of 3% is not high, it is stable enough to be counted on during a recession.

Since 2004, IA's book value has been growing at 9.7% each year. You can clearly see the benefits of being a smaller player in this segment. A smaller company can grow faster for longer. It is a good stock to count on for consistent growth.

IA's management is known for its conservative business approach, and that is exactly the kind of company you want in your portfolio during a downturn.

CATEGORY

1. Investing

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