Better Than Bank Stocks: A Dividend Growth King I'd Buy With an Extra $6,000

Description

Canadian banks are facing tremendous headwinds heading into the new year. While I wouldn't hesitate to buy some of the cheaper banks on the dip, there's a better bang for your buck when it comes to Canadian financial stocks.

Enter **Intact Financial** (TSX:IFC), a Canadian property and casualty (P&C) insurance company that's been red hot this year, with shares currently up 37% year to date.

Intact stock is currently sitting at all-time highs and may seem expensive relative to the Canadian banks given its rich 26.4 times trailing earnings multiple and its tremendous run.

Given all the promising developments going on in the background, I'd say that Intact is not only worth today's premium price tag, but may actually be "cheaper" than most of the Canadian banks when you weigh the quality of growth potential and far milder headwinds ahead of the firm heading into 2020.

Intact is firing on all cylinders, and if you're able to shed your fear of hot stocks at or around their all-time highs, there are potentially tremendous rewards over the next three years. Intact looks like a winner that will keep on winning.

During Intact's investor day presentation last month, management shed light on its Guarantee Company and MGA Frank Cowan acquisitions announced in August and recently completed. Intact called for mid-single-digit EPS accretion by 2021 — a nice earnings boost to a company already operating at a very high level.

Fellow Fool contributor Karen Thomas highlighted the fact that Intact is fortunate to be operating in a highly fragmented industry, allowing Intact a tonne of room to grow thanks to its stellar balance sheet and exceptional management team who knows how to drive operational efficiencies like few others can.

“For Intact, the holder of the largest market share in its fragmented industry (16%), there is opportunity and value to be had. Intact continues to pursue additional market share to drive scale and efficiencies higher,” said Thomas, who also applauded the firm for its 9.1% dividend compound annual growth rate (CAGR).

With a 2.3% dividend yield and a seemingly rich valuation compared to most other insurers, many value-conscious income investors may be reluctant to invest in Intact despite its long growth runway and growing moat in the Canadian market.

Sure, there are cheaper financials, such as insurers and banks with more bountiful yields, but given the accelerating growth potential, I’d say that Intact is a king is in the Canadian insurance scene and is looking like the best bet from a risk/reward standpoint over the next few years.

Interest rate cuts may pressure Intact moving forward. However, given that the Bank of Canada has been holding rates steady and the likelihood that it will divorce the U.S. when it comes to the trajectory of rates given seemingly fewer disinflationary pressures here in Canada, interest rate risk is less of a concern.

Intact is red hot — and it’s about to get even hotter. With shares trading at 17.3 times forward earnings and 2.7 times book, you’re hardly neglecting value, even if you buy the stock here at all-time highs.

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