



## Better Than Banks: Should You Buy Manulife (TSX:MFC) or Intact Financial (TSX:IFC) for 2020?

### Description

With macro headwinds painting a gloomy picture for the Canadian banks going into 2020, many investors are probably wondering if it's a good idea to rotate cash into the Canadian insurers.

Many of the Canada's top insurers put the Canadian banks to shame in 2019, including the likes of **Manulife** ([TSX:MFC](#))([NYSE:MFC](#)) and **Intact Financial** ([TSX:IFC](#)), which posted year-to-date gains of 34% and 41%, respectively, at a time when many of the big banks are struggling to deal with surging expenses and out-of-control provisions.

While both top insurers have made meaningful fundamental improvements over the past year, your portfolio should only reserve a spot for one of them in 2020 and beyond to avoid the effect of "diworsifying" (or over diversifying).

Without further ado, let's have a closer look at each name to see which insurer you should buy with your next \$6,000 TFSA contribution.

### Manulife

Manulife is Canada's largest life insurer and is a popular holding among many Canadian mutual funds. The company has developed a terrific foundation in the higher-ROE Asian market, which could be a significant driving force over the decade that lies ahead.

Asia only accounts for around 30% of profits at the time of writing. Still, it's a number that's expected to grow as management looks to capitalize on the opportunity to be had with Asia's rapidly growing middle class, both with insurance and wealth management products.

Expenses have been down-trending, and they'll continue to do so as Manulife moves closer to its \$1 billion expense initiative target by 2022. For the third quarter, Asia was a significant source of strength, while Canada was a drag thanks in part to a \$500 million charge and continued weakness in capital markets.

At the time of writing, MFC stock trades at 8.3 times next year's expected earnings, 0.67 times sales, and 1.1 times book. The stock sports a 3.8% dividend yield and still looks ridiculously cheap, even after an impressive year of gains. Manulife looks like a terrific value investment with a superb growth outlet in the Asian market, making the name still worthy of picking for 2020.

## Intact

Intact is a property and casualty (P&C) insurer that's [defied the laws of gravity](#) in 2019, surging to new all-time highs constantly.

Unlike Manulife, which is dirt-cheap, Intact trades at a premium multiple at 17.8 times next year's expected earnings, 1.73 times sales, and 2.8 times book. While Intact may seem like a name that'd give you less bang for your buck, I think the reverse is true.

Intact deserves every bit of its premium over Manulife and its insurance peers. In fact, I'd argue that the premium isn't substantial enough given the progress that's been made over the past year.

Intact's acquisition of The Guarantee Company and MGA Frank Cowan are expected to be accretive to EPS in the mid-single-digit range by 2021. And given the North American P&C scene is still quite fragmented, I see a scenario where Intact can continue growing its earnings growth at an above-average rate. Management is spectacular at spotting value and driving efficiencies — required traits for firms that succeed in creating value through M&A.

The meagre 2.2% dividend yield, the stock's 27.2 times trailing earnings multiple, and the stock's sheer momentum, I'd imagine, are major turn-offs for prospective investors. You can get a much higher yield for a seemingly lower valuation with almost any other Canadian insurer. But few firms can match the competency of Intact's management or its impressive growth runway. And for that reason, Intact is [my top pick for 2020](#), even after its glorious run.

## Foolish takeaway

You can't go wrong with either insurer at these levels. Manulife is a terrific value stock with a handsome dividend, and Intact is a low-risk growth gem that's managed by exceptional stewards. If I had to choose one, I'd go with Intact, because I think it has better near-term catalysts that could keep the stock going strong well through 2020.

Stay hungry. Stay Foolish.

### CATEGORY

1. Dividend Stocks
2. Investing

## TICKERS GLOBAL

1. NYSE:MFC (Manulife Financial Corporation)
2. TSX:IFC (Intact Financial Corporation)
3. TSX:MFC (Manulife Financial Corporation)

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joefrenette

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