This Little-known Stock Could Be the Canadian Berkshire Hathaway

Description

Warren Buffett isn't just the third-richest person in the world, he's also one of the only ultra-wealthy people to amass a fortune solely through savvy investments. Buffett has been investing since the age of 11 and is widely considered one of the most sophisticated financial professionals in the world.

However, savvy stock-picking and frugal spending habits aren't the only reason Buffett has entered the billionaires' club. The driving force for his success is the float generated by his company's core insurance operations.

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Premiums collected on **Berkshire Hathaway's** insurance business allowed Buffett to invest more capital into his favourite stocks. The leverage boosted his overall performance over time. It's testament to the earning and compounding power of well-managed insurance companies.

A similar strategy seems to be driving Quebec City-based **iA Financial Group** (TSX:IAG
). The company started off as a creditor insurance firm in 1999 and has since expanded into a comprehensive financial services provider through steady acquisitions and organic growth over time.

The firm now manages an investment portfolio worth over $39.9 billion. Much of this massive portfolio (69%) is invested in government or corporate bonds, with the rest deployed in real estate, stocks or mortgages.

A combination of savvy investments and operational efficiency have helped the company expand earnings and underlying assets at a phenomenal clip.

Since 2000, the firm's book value per share has more than sextupled, rising from $8.44 to $50.8 today, which implies a compound annual growth rate of 9.6% over 19 years.

Outlook

The iA team believes it can expand earnings per share at an annual rate of 10% for the next few years. This steady pace of growth is expected to be driven by a wider footprint in the United States, lower tax costs due to optimization and higher profits from emerging segments like car loans and personal credit.

The team also expects to keep the dividend payout ratio low — between 25% and 35% — over the next few years.

Conservative cash management along with a track record of growth and investment performance should make this one of the most robust financial stocks on the market. Unfortunately, investors seem to have overlooked iA Financial until recently.

Valuation

iA’s stock price fell below its book value per share briefly in mid-2019. This has only happened three other times in the company’s 20-year history.

However, the stock has surged 74% since then and is now trading at a 44.88% premium to book value. Meanwhile, the dividend yield has dropped to 2.44% at its current market value.

In other words, the company seems mildly overvalued at the moment and investors may want to wait for a pullback to add some exposure.

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Bottom line

Robust earnings growth and an insurance-driven investment model make iA Financial similar to Buffett’s famous investment vehicle. The group expects earnings and dividends to expand at the double digits for the foreseeable future. However, this potential for growth seems to be fully reflected in the current stock price.

Long-term value-oriented investors should keep an eye on this company and probably add some exposure when the valuation improves.

CATEGORY

1. Dividend Stocks
2. Investing

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1. TSX:IAG (iA Financial Corporation Inc.)

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