TFSA Investors: Where to Invest $69,500 This Year

Description

Insurance companies were some of the worst-hit sectors during COVID-19, but very few have managed to emerge stronger amid the crisis. **Intact Financial** (TSX:IFC) is one of them.

It has maintained its top line and income growth in the last few quarters, despite being dominated by the pandemic. The stock has not only outperformed peers this year but has consistently stayed stronger in the longer term as well.

Intact Financial: A long-term outperformer

In the last decade, Intact Financial stock returned approximately 310%, while peers returned an embarrassing 60% on average. Intact Financial is a fundamentally strong business that will likely keep on outperforming in the future.

Its attractive valuation and handsome dividend profile suggest that it can be a smart move for the Tax-Free Savings Account (TFSA). The capital gain and dividend income generated within the TFSA will be tax-free for eligible investors throughout the holding period and even at withdrawal.

Intact Financial is a $21 billion property and casualty insurance company in Canada with a market share of approximately 17%.

Intact witnessed above-average growth in the first half of 2020. Its net income grew by more than 80% in this period compared to the same period last year, mainly driven by strong underwriting. Despite premium reliefs given to customers due to the pandemic, its premium growth was stable at around 7% for the recently reported quarter.

Intact might not grow at the same pace for the second half of the year, as the relief measures related to the pandemic will likely weigh on it. Its personal property segment might continue to grow and could offset the negative impact to some extent.

Competitive advantage

The company has been highly consistent with its revenues and net income growth for the last several years. In the last five years, its revenues have increased by approximately 10%, while its net income grew by 3% compounded annually. The insurance industry is generally a slow-growing one, and those rates beat industry trends.

The stable cash flows allowed Intact to pay stable dividends to its shareholders. It yields 2.3% at the moment, marginally lower than TSX stocks at large. In the last 15 years, Intact managed to grow its dividends by 11% compounded annually.

According to analysts' estimates, Intact is expected to earn $8 per share for 2020. This represents a 30% growth compared to 2019. Based on these estimates, Intact stock seems to be trading at a forward price-to-earnings valuation of 18, much lower than its historical average. A company with above-average earnings prospects trading at a discounted valuation is nothing short of a steal.

A top move for your TFSA

Intact Financial stands tall among peers due to its scale, leading market share, and diversified business mix. Strong underwriting and its multi-channel distribution strategy will likely bode well for its earnings growth for the long term.

The TFSA contribution limit for 2020 is $6,000. And if you have never contributed to it, then it is $69,500.

If you invest $69,500 in Intact Financial today, and it follows similar growth for the next decade, one should generate a reserve of close to $300,000 by 2030.

Notably, it would not be wise to invest a large sum in one stock from the diversification standpoint. One can consider stable stocks for long-term investments.

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vinitkularni20