



## DFY Stock: Should Definity Financial Be Part of Your Portfolio?

### Description

Last week, **Definity Financial** ([TSX:DFY](#)), a Canadian-based property and casualty insurance company listed its shares on the **Toronto Stock Exchange**. The company priced its initial public offering (IPO) at \$22 per share and offered 63.63 million shares, raising \$1.4 billion in the process. Definity Financial also sold \$700 million worth of shares via a private placement to institutions including Swiss Re and the Ontario Pension Plan, which means the company raised \$2.1 billion in the public issue.

Definity Financial's IPO was the [largest one in 2021](#) and the third-largest in the last five years. At the time of writing, Definity Financial stock is trading [at its IPO price](#) of \$22 after it touched a high of \$30 on November 18. Let's see if this recent Canadian IPO should be part of your shopping list right now.

### The bull case for Definity Financial

Definity Financial is a personal and commercial P&C insurer that offers auto, property, liability, and specialty insurance solutions through multiple distribution channels.

The company is part of a large and growing addressable market. Canada's P&C insurance industry has grown its direct written premiums (DWP) from \$38 billion in 2010 to \$63 billion in 2020, indicating an annual growth rate of 10%. The industry is highly fragmented as the top five insurance carriers accounted for 52% of the market DWP in 2020.

Definity Financial is the largest fully digital direct-to-consumer insurance business in the country. It is well poised to gain market share in a mature industry as Canadian consumers are embracing digital solutions in the financial services and insurance verticals. In fact, around 52% of Canadians are now open to purchasing insurance online.

Definity Financial is also integrating machine learning, artificial intelligence, data analytics, and data management capabilities to ensure efficient customer acquisition. This has helped decrease customer acquisition costs by 50% between 2017 and 2020.

Since 2017, the company has launched three digital platforms that include Sonnet, Vyne, and Vyne Commercial. These digital platforms are successfully driving growth and profitability for Definity Financial. Between 2018 and 2020, its annual personal property gross written premiums (GWPs) rose at an annual rate of 16% for Definity Financial. Its underwriting income also improved by \$287 million in this period.

## Well poised to deliver solid growth

Definity Financial is well-positioned for expansion across multiple commercial insurance segments. It has valued the small business segment at \$8 billion, the mid-market segment at \$7 billion, and the specialty business segment at \$5 billion.

The company has increased its gross written premiums from \$2.45 billion in 2018 to \$2.81 billion in 2020, indicating an annual growth rate of 7%. It now aims to grow its GWP annually by 10% in the future.

Another key metrics that investors should consider is Definity Financial's significant improvement in the bottom line. Its operating net income has improved from a loss of \$101 million in 2018 to \$184 million in 2020, making DFY an attractive bet given its [market cap](#) of just \$2.85 billion.

Finally, Definity Financial has a conservative and diversified investment portfolio, of which 80% is allocated to fixed income securities.

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