2 Top TSX Financial Stocks to Buy in December 2022

Description

With interest rates rising so quickly, the TSX Index will almost certainly be negatively affected in 2023. Thus, we would be wise to set ourselves up well. This means buying stocks that will benefit from the rapidly rising interest rates. Certain top TSX financial stocks will do the trick.

Please read on, as I discuss two top TSX financial stocks to buy in December.

Intact Financial: A TSX stock generating strong returns

The first top stock I would like to discuss is **Intact Financial** (TSX:IFC). Intact is the largest provider of property and casualty (P&C) insurance in Canada. The company's growth strategy is to grow largely via acquisition, as the industry remains highly fragmented. In fact, over the last many years, it has done just that. This has resulted in strong revenue growth, earnings growth, and returns. In the last five years, Intact has almost doubled its revenue, with a corresponding 163% increase in net income.

It's also solidified Intact's leadership position in the P&C insurance industry. In fact, the company's size and scale have dramatically increased over the last decade. Back in 2020, Intact acquired international P&C insurer RSA Group for $12.3 billion in a move to strengthen its leadership position and bolster returns. In fact, this acquisition resulted in high single-digit net operating income per share accretion in the first year. Also, within 36 months, this would increase to upper teens accretion.

So, the company's investment merits are clear. Why is Intact a top TSX stock to buy in a rising interest rate environment? Insurance companies have a lot of assets on their balance sheets, which are largely invested in fixed income (bonds). In the long run, higher rates translates into greater returns on these investments, which falls directly to the bottom line.

Intact is yielding 2% today and is trading below its peer group on the TSX Index, despite consistently posting an industry-leading return on equity.

Manulife: Big upside and a generous yield

As a life insurance company, **Manulife Financial** (TSX:MFC) will benefit even more from rising interest rates. This is because being a life insurance company, its assets are invested in longer-term bonds. Longer-term bonds fall less when rates rise, so the short-term hit that its assets take in a rising-rate environment will be tempered by this. But in the longer term, Manulife will also benefit greatly from higher rates.

There are some stocks on the TSX today that will benefit from higher rates, but none as dramatically as life insurance companies. Manulife is a top financial stock to buy for this reason. But it's also a top stock for its well-diversified business. This diversified product offering and geographic reach is instrumental in its future success. In the last five years, Manulife's earnings increased from $2 billion to $6.8 billion. But times are challenging as well, which is evidenced in the company's latest earnings results.

In its latest quarter, core earnings declined 14% due partly to difficult environmental issues such as floods as well as difficult financial markets. But the key takeaway here is that despite the earnings decline, Manulife's core earnings beat estimates. This should mean that Manulife stock is undervalued because expectations are overly pessimistic.

Looking ahead, I think we can be encouraged by Manulife's global presence and earnings power. Also, the stock's steep discounted valuation signals that this is a really good time to buy this stock. In fact, it's trading at a mere 6.4 times earnings versus the industry average of 9.1%. This is despite the fact that Manulife generates higher margins and a higher return on equity than its peers.

Manulife stock is currently yielding 5.5%, making it a top financials stock on the TSX Index to buy today.

CATEGORY

1. Investing

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