



# STOCKTRADES PREMIUM COMPANY SUMMARY

**INTACT FINANCIAL**

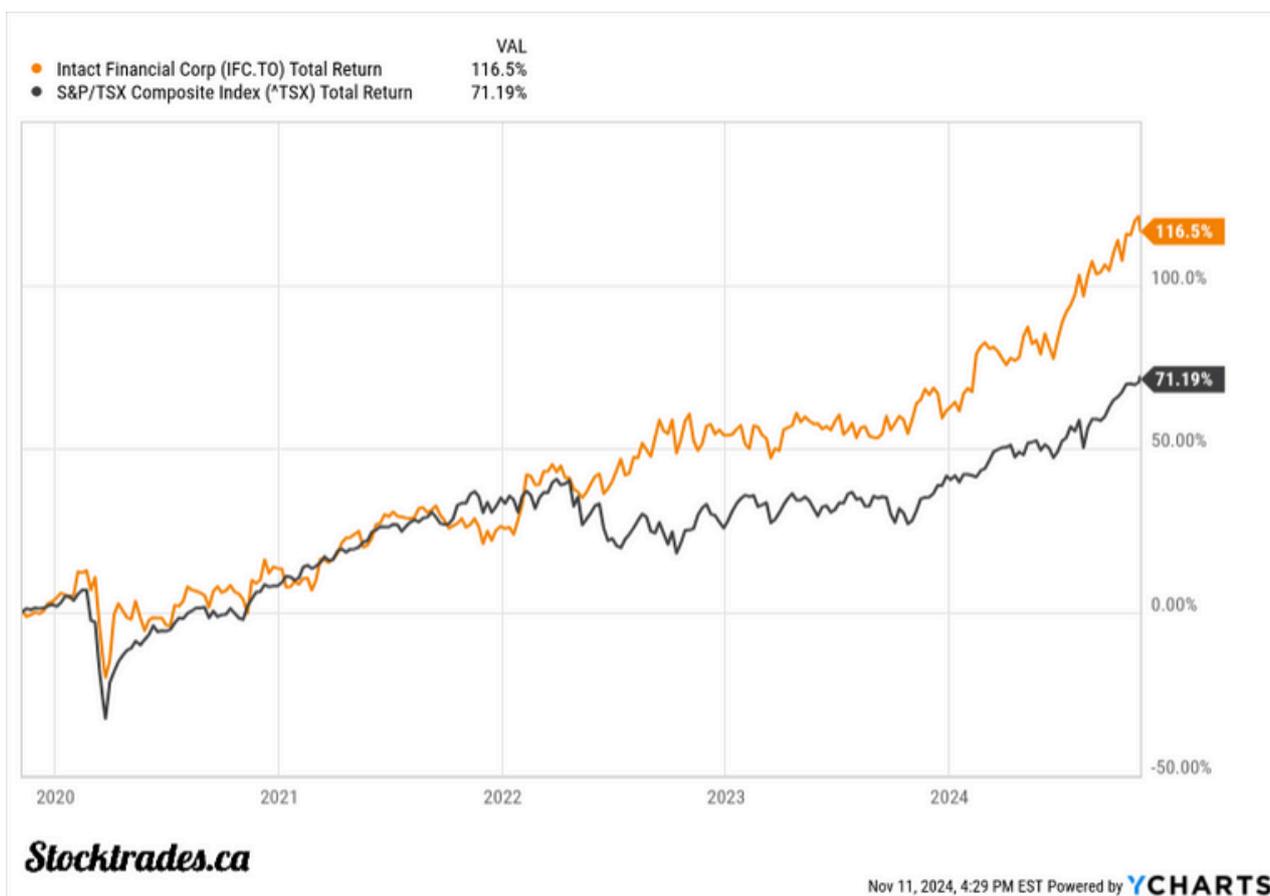
**IFC.TO**

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**NOTE: DAN IS LONG IFC**

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*Stocktrades Premium*



Intact Financial Corp is a property and casualty insurance company that provides written premiums in Canada. The company distributes insurance under the Intact Insurance brand through a network of brokers and a wholly-owned subsidiary, BrokerLink, and directly to consumers through Belairdirect. Most of the company's direct premiums are written in the personal automotive space. Intact directly manages its investments through subsidiary Intact Investment Management. The vast majority of these invested assets are fixed-income securities. Its asset mix is designed to generate interest and dividend income.

Focus Areas	Score (0/100)	Focus Areas	Score (0/100)
Valuation	54	Dividend	92
Profitability	49	Outlook	71
Risk	90	Debt	75
Returns	92	Growth	62
Overall	67		

\*Our Risk Rating: Our opinion of the overall risk an investment presents. Can be shown as Defensive (DEF), Moderate (MOD), or Aggressive (AGG). By no means is this an indication of future potential gains or lower volatility.

## PROS

- One of the fastest growing insurance companies in the country (double-digit growth)
- 19 year dividend growth streak
- Largest P&C insurance company in Canada, yet only has 17% market share
- Strong coverage ratios + earnings growth
- Higher rates can mean higher margins and profitability
- Company is one of the best performing financial companies over the last two years
- Company has proven how reliable it is over the last few years, with virtually no weak quarters

## CONS

- P&C insurance companies are exposed to catastrophic losses like floods, tornados, and fires. We are seeing this right now with Intact Financial in relation to the BC Wildfires
- In a fragmented market, there is always opportunity for other companies to capture market share
- Company's UK segment is getting better, but continues to struggle

## OVERALL THESIS

In our opinion, Intact Financial is one of the best insurance companies in North America. It is also a dual-threat in terms of both capital and dividend growth. The company provides excellent dividend growth to go along with consistent double-digit earnings and revenue growth. Intact also has one of the best combined ratios in North America, reflecting the efficiency of its business and underwriting skills. The combined ratio is a profitability measure with insurance companies, in which it takes the money flowing out of the company in the form of incurred losses, expenses, and dividends, and divides them by earned premiums.

The company's combined ratio across all segments was 90.1% to close out Fiscal 2023, which is an improvement over Fiscal 2022. This is an industry-leading ratio and one of the best in North America. For reference, anytime a combined ratio is above 100% it's a sign the insurer is operating at a loss and premiums are not covering expenses. The company has also shown the ability to make smart acquisitions and quickly integrate them. These factors signal a strong management team, which is something we like.

This is very much a GARP (Growth At a Reasonable Price) play, and the core thesis with an investment in Intact Financial is the fact it will be able to grow both the dividend and earnings by continuing to be a leader in a highly fragmented industry. The company is the largest P&C insurer in Canada, yet makes up only 17% of market share. There is plenty of room left for outsized growth. It continues to deliver on quarterly earnings and at the time of writing, is breaking all time highs. However, we feel the company still has room to run upwards.

## POTENTIAL RISKS

Property & Casualty insurers are inherently higher risk than a company like Manulife Financial which primarily deals with investment products and life insurance. This is because P&C companies are exposed to catastrophic events that can have immediate and even material impacts on the business. Look no further than the Calgary floods, the wildfires in

Western Canada, and even the flooding in British Columbia. Although insurance companies often prepare themselves for events like this, there is no telling how significant the magnitude will be. So although you usually wouldn't think of it, things like climate change and supply chain

<b>Beta</b>	<b>0.54</b>
<b>Alpha</b>	<b>10.68</b>
<b>Our Risk Rating</b>	<b>Mod*</b>
<b>Max Drawdown</b>	<b>30.6%</b>

disruptions can significantly impact a company like Intact. When we separate combined ratios by segment, the company's UK operations struggled in 2023, at times exceeding 100%, and is a prime example of the risks of a P&C company. Why? Inflationary pressures and significant catastrophic events. Along with this, a P&C insurer is only as good as its underwriting skills. Underwriting risk is a risk that is present in every insurance company. Inaccurate assessments of potential risks, or issues arising from factors out of the company's control, can greatly impact the business.

## VALUATION

	<b>TTM</b>	<b>5 Year Average</b>	<b>Industry Average</b>
<b>P/E</b>	<b>23.1</b>	<b>21.1</b>	<b>12.7</b>
<b>P/S</b>	<b>1.87</b>	<b>1.66</b>	<b>1.36</b>
<b>P/B</b>	<b>2.95</b>	<b>2.55</b>	<b>1.91</b>
<b>P/FCF</b>	<b>21.25</b>	<b>12.11</b>	<b>22.58</b>
<b>PEG Ratio (FWD)</b>	<b>0.84</b>	<b>N/A</b>	<b>N/A</b>

When we look at historical averages, Intact Financial is starting to trade at a premium. It also remains one of the most expensive stocks in the financial sector, especially considering the large-cap options. That said, the company's growth justifies its current valuation. In addition to this, catastrophe losses were impacting earnings and cash flow, making the company's price to earnings and price to free cash flow ratios artificially high. These issues should be out of the company's earnings now, which is why we are seeing normalized numbers.

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Rising rates and economic uncertainty are some of the primary reasons why valuations in the financial sector underwent a significant reset in 2022 and 2023. However, we're now starting to see valuations rise yet again and with Intact's earnings normalizing.

Over the past few quarters, we talked about how net investment income grew rapidly as the company capitalized on profits from its investment portfolio. This inflated the company's earnings per share, lowering its price-to-earnings ratio. We anticipated this would eventually slow, and it has. Now, it's one-time events impacting earnings to the downside over the last while, although, as mentioned above, they're starting to normalize.

As a result, Intact went from trading at a steep discount to a premium P/E ratio. It is important to recognize these aspects when valuing the company and not to get tunnel vision regarding valuation ratios. From our perspective, the company is trading near fair value today.

As mentioned in the overall thesis, this is a growth at a reasonable price (GARP) play. You will rarely find Intact trading at a deep value discount. That said, Intact has an excellent growth profile. What can investors reasonably expect from a company trading at fair value? For its share price to track growth rates moving forward.

## COMPETITOR ANALYSIS

Intact has relatively little competition on the Toronto Stock Exchange. Keep in mind, we don't want you to think that because of this it has no competition. It has plenty, many of which just aren't publicly traded. Its largest **public** competitor is Aviva, which is a British company headquartered in London England.

The company trades on the London Exchange under the ticker AV.L. From a valuation standpoint, Aviva is certainly cheaper, but considering the fact Intact is growing at a faster clip, has a much larger market share, and is easier for many Canadians to buy due to its accessibility on the TSX, we really won't go too in-depth on the two. And as mentioned, the other main competition the company has is private companies.

There are plenty of P&C insurers out there that could take market share away from Intact including Desjardins, Wawanesa, and the Co-operators. However, considering Intact has nearly double the amount of premiums written than its largest competitor Desjardins, its moat is quite wide.

## DIVIDEND ANALYSIS

Annual Dividend	EPS Payout Ratio	5 Year Dividend Growth %	Dividend Growth Streak
\$4.84	43%	9.46%	19

To close out Fiscal 2023, Intact Financial increased the dividend by 10%, going from \$4.40 per share to \$4.84. This marks the company's 19th consecutive year of dividend increases, and it has increased the dividend every year since its IPO in 2004. We would expect that Intact will raise the dividend yet again when it closes out Fiscal 2024, as it's becoming routine for them to raise at this time.

The company has one of the longest dividend growth streaks in the financial sector and one of the largest dividend growth rates out of any large-cap financial stock. In our eyes, the P&C market is a faster-growing industry relative to life insurers. As a result, barring any catastrophic events, Intact Financial should be able to post industry-leading growth for the foreseeable future.

Over the last few quarters, payout ratios have finally started to normalize, and the company is now paying out only 43% of earnings towards the dividend.

## RECENT EARNINGS

Earnings Estimates	2024	2025	2026
EPS	\$13.74	\$16.46	\$17.36
Revenue	\$21.8B	\$23.45B	\$25.11B

After a long string of positive quarters, Intact reported a so-so quarter in Q3. Revenue of \$5.5B missed estimates for \$5.6B, and although earnings per share of \$1.01 came in well ahead of expectations, they're down quite a bit on a year-over-year basis because of catastrophe losses.

The company reported 6% premium growth on the quarter, much of which was driven by personal lines of insurance.

The main issue, and what I will be focusing on in this earnings writeup, was the catastrophe losses. The company reported earnings per share of \$1.01. However, there was an impact to earnings of \$5.03 because of these catastrophe losses. In total dollar terms, they exceeded \$1.2B.

The bulk of these losses (around \$1.15B) were in the Canadian segment, primarily related to the wildfires in Jasper, a hailstorm in Calgary, and severe rains and flooding in Southern Ontario. Although these impacts are no doubt devastating, the company is well capitalized and more than able to absorb these shocks.

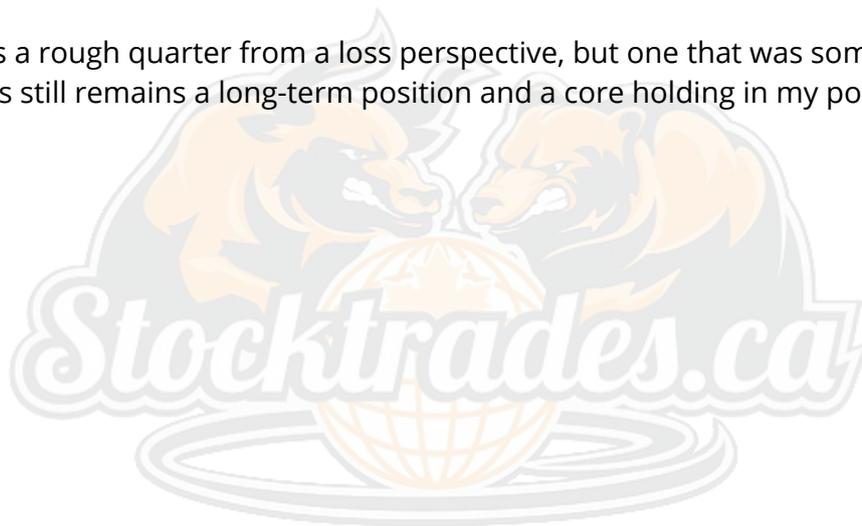
Because of the large catastrophe losses, the company's overall combined ratio came in at 103.9% on the quarter. As I've mentioned before, you want a combined ratio that is as low as possible percentage-wise, as it compares the money being brought in by an insurance company relative to the premiums it pays out. For example, in Intact's case on the quarter, it brought in \$100 in premiums but paid out \$103.90 in claims.

On a year-to-date basis, the company's combined ratio sat at 94.2%, which is down by 1.4% when we look to the first 9 months of 2023. The market didn't really react all that much to this large-scale catastrophe loss reporting, likely because they expected it and also because it is probably a one-off situation of an unusual amount of events during one quarter.

Fundamentally, this company still remains strong, and I view it as one of the best insurers in North America. Book value per share increased by 17% year-over-year to now sit at \$90.60, and the company's debt-to-total capital ratio is creeping toward its target of sub-20%. The lower the debt to capital, the better. It suggests that the company is utilizing cash flows to finance business activities over debt.

The company issued its outlook expecting double-digit premium growth in its personal auto and property lines and mid-single-digit growth in its commercial and specialty segments.

Overall, it was a rough quarter from a loss perspective, but one that was somewhat expected. This still remains a long-term position and a core holding in my portfolio.



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