



Power Corporation Gets a Positive Jolt from Analysts Despite Missing Expectations

Description

Analysts had been expecting **Power Corporation of Canada** ([TSX: POW](#)) to have operating earnings of approximately \$0.64 per share in its most recent third quarter, but the company fell far short coming in with operating earnings of only \$0.51. So after reading the headlines, you would expect the downgrades to start streaming out, but on the contrary, Power Corp. and its subsidiary **Power Financial Corporation** (TSX: PWF) were both upgraded and stock price targets were increased.

Before scratching your head too hard, it's necessary to better understand the structure of the company. Power Corp. is essentially a holding company that owns a 65.8% interest in Power Financial and has 100% ownership of Square Victoria Communications Group and Power Energy. The company also maintains a portfolio of various investments.

Power Financial in turn holds a 67% interest in publicly traded **Great-West Lifeco Inc.** ([TSX: GWO](#)) and a 58.7% interest in **IGM Financial Inc.** ([TSX: IGM](#)). The vast majority of the company's revenues and earnings are generated by Power Financial through Great-West and to a lesser extent IGM.

Digging deeper into the earnings

To get to the bottom of Power Corp.'s earnings, one must take an in-depth look at the performance of Power Financial. Earnings of \$0.61 per share at Power Financial in the third quarter fell short of the numbers posted last year by \$0.04 per share. This resulted in a \$286 million contribution from Power Financial which was down from \$302 million during the same quarter in the prior year and down from \$305 million last quarter.

During the quarter, Power Financial subsidiary, Great-West, acquired Irish Life Group Limited for €1.3 billion. The net costs associated with this acquisition had a negative impact on operating earnings of \$0.06 per share. Excluding this impact, Power Financial would have earned \$0.67 per share which would have increased the operating earnings of Power Corp. to approximately \$0.57 per share. Still short of estimates, but represents a nearly 12% increase over operating earnings produced during the third quarter of 2012. Now the picture is starting to look a little brighter.

So why are analysts still positive on the stock?

Since Power Corp. is a holding company, its success is reliant primarily on the performance of its largest holding, Power Financial and its chief holdings Great-West and IGM. This is where analysts see the upside for the company. Great-West reported earnings that were in line with expectations of \$0.59 per share and shares have continued to hit new highs. On the other hand, IGM missed expectations by \$0.02 per share coming in with earnings of \$0.77 per share, but this has not stopped the stock which has jumped nearly 10% since reporting. Investors seemed to look past the miss and cheered the 5.6% increase in assets under management to \$126.0 billion, which included a record \$64.4 billion at the company's Investors Group operation.

In addition to good performance at its subsidiaries, Power Financial is also trading at an approximately 15% discount to net asset value (NAV). Unlike the much lower book value the company reports, NAV takes into account the market values of the company's investments. The new highs reached by Great-West and IGM have continued to increase NAV taking shares of Power Financial and Power Corp. along for the ride.

Final thoughts

Shares of parent company Power Corp are currently trading near the median analyst price target of \$32.63 and its discount to NAV is at historical norms according to TD Securities analyst, Graham Ryding in a recent [article](#) that appeared in the Financial Post. Mr. Ryding believes Power Financial may be the way to get exposure to further upside in Great-West and IGM due to its 15% discount to NAV which is wider than its 10-year average of 8.4%. In addition, the stock has a dividend yield of nearly 4%. Even though shares of Power Financial have already shot through the median target price of \$36.00, Mr. Ryding believes it can go as high as \$39.

Earnings of Power Corp. are highly correlated to those of Power Financial so shares of both companies should move in tandem. However, the higher than historical average discount offered by Power Financial may make it the preferred play until the discount gap is closed.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:GWO (Great-West Lifeco Inc.)
2. TSX:IGM (IGM Financial Inc.)
3. TSX:POW (Power Corporation of Canada)

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