



Power Financial Corp: How to Buy \$1 Worth of Assets for 65 Cents

Description

Much to the chagrin of the executives who build them, the stock market often usually doesn't respect conglomerates.

The reasoning is simple. Many investors don't want a company that does a good job in several different types of businesses, they want a company that does a great job in one business. Investors value commitment to one business more than they value the diversification offered by several different businesses. It might not make sense all the time, but that's the way it is.

This creates opportunities for an investor who is willing to turn over a few rocks while looking for a company trading at a discount to its intrinsic value. You buy when shares are worth 15% or 20% below the sum of the parts, collect a dividend in the meantime, and then sell when the gap narrows. It's a very low risk way to make a little extra return.

In Canada, there are a few ways for an investor to do this. Let's take a closer look at one company trading at a discount to the value of its parts, **Power Financial Corp** (TSX: PWF).

The parts

The ownership structure is a little bit complex, so let me lay it out as simply as I can.

Power Corporation of Canada ([TSX: POW](#)) sits atop the organizational chart. It owns 65.7% of Power Financial, as well as 100% of a company called Square Victoria Communications Group. Square Victoria owns various media assets, including the largest newspaper in Montreal, *La Presse*. Power Corporation also has electricity assets and investments in various funds around the world.

Power Financial, meanwhile, has three main investments. It owns 67.1% of **Great-West Lifeco Inc.** ([TSX: GWO](#)), 58.7% of **IGM Financial Inc.** ([TSX: IGM](#)), and 50% of a joint venture with the Frere family group of Belgium, which owns 55.5% of a publicly traded company called **Groupe Bruxelles Lambert**. Thus, Power Financial owns 27.75% of Groupe Bruxelles Lambert.

And, just to make it a little more confusing, Great-West Life owns 3.7% of IGM Financial, and IGM

Financial owns 4% of Great-West Life.

Let's take a closer look at each part.

Great-West Lifeco is one of Canada's largest insurance companies. It provides life, disability and health insurance to millions of Canadians, as well as retirement and asset management services. It also has a reinsurance division. The company has a market cap of \$33.5 billion.

IGM Financial offers investors products such as mutual funds, wealth management, insurance, and mortgages through its army of nearly 5,000 Investors Group consultants. IGM currently has a market cap of \$12.1 billion.

Groupe Bruxelles Lambert is an investment company. It has stakes in many major European companies including **Lafarge**, **Total**, and **Imerys**. The company has a market cap of 11.7 billion Euros, which converts to \$16.7 billion.

Doing a little back of the envelope math, we can determine the following. Power Financial's stake in Great-West Life is valued at \$22.5 billion. Its stake in IGM Financial is worth \$7.1 billion. And its stake in Groupe Bruxelles is valued at \$4.6 billion. We'll ignore the cross ownership between Great-West Life and IGM Financial.

Add it all up, and Power Financial should be worth \$34.2 billion. Then why is the company's market cap only \$25.2 billion? That's a discount of 35.7%.

There are a couple of caveats to my analysis. First of all, no debt or preferred shares are included. Both Power Financial and Great-West Life have many preferred shares issued. I'm just looking at the ownership value of the stock. And secondly, I didn't look deeper into Groupe Bruxelles. That company could be trading at a discount to the sum of its parts as well.

Essentially, we have a company that trades at a discount of approximately 30-35% of the sum of all of its parts. This is a pretty decent discount for value investors, and Power Financial does pay a 4% dividend. But for most of its history, Power Financial has traded at a discount to its intrinsic value of about 25%.

At this point, it doesn't look likely this discount will decrease. There just isn't an upcoming catalyst that I can see. The stock will still perform as well as the underlying businesses, but that's about it.

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)

Category

1. Investing

Date

2025/07/04

Date Created

2014/11/28

Author

nelsonpsmith

default watermark

default watermark