



3 Reasons to Buy Power Financial Corp. Today

Description

Over the years, Canada's financial institutions have been a good place for investors to park their money.

The banks get all the attention, and rightfully so. Canada's banking system has been, for the most part, incident free since the Great Depression. Sure, there have been localized bank failures and near-misses like in 2008-09, but overall our financial institutions have held up as well as (or better than) any others in the world.

But it isn't just our banks that should be getting the attention. Canada also boasts some great life insurance companies, some of which are very active outside our borders. Additionally, we have other financials that are among the class of the world, like wealth managers, mortgage companies, and other specialty finance companies.

This is one of the reasons why investors just buy the big banks, because they have all this business rolled up into one company. But what if you were bearish on Canadian housing, but bullish on the rest of the market? Or perhaps you think the insurance business will outpace the banking business because rates are bound to be heading up soon.

In that situation, I think investors should be buying **Power Financial Corp.** (TSX:PWF), one of Canada's more overlooked financial services companies. Here are three more reasons why this stock should be in your portfolio.

Instant diversification

Essentially, Power Financial is a holding company with three major assets.

First of all, it owns 67% of **Great-West Lifeco Inc.** ([TSX:GWO](#)), one of Canada's largest life insurance companies. Over the years Great-West has swallowed up several of its competitors, including London Life and Canada Life, two companies known more for their wealth management divisions than their life insurance operations. All together, Great-West Life has more than 12 million clients, operations in six different countries, and nearly \$350 billion in assets under management.

The company also owns nearly 59% of **IGM Financial Inc.** ([TSX:IGM](#)), the parent company of Investors Group and Mackenzie Financial. The beauty of IGM is that it has an army of nearly 5,000 Investors Group consultants who deal with Canadians who aren't the most financially savvy, ensuring plenty of demand for a family of mutual funds that most observers would agree are pretty expensive.

The company also has a joint venture that invests in undervalued securities, partnering up with a well-known European value investor, but it's tiny compared to the other two businesses.

Thanks to the subsidiaries, Power Financial offers investors built-in diversification.

Cheap earnings

Of course, many other financials give investors access to the same sort of diversification. But for the most part, they're more expensive than Power Financial.

The company trades at just 10.8x earnings, which is cheaper than most of its competitors. And there's potential to increase the earnings as well, since Great-West Life is struggling with low interest rates. Increasing rates tend to be good for life insurance companies.

Plus, I think the market may be undervaluing the potential in financial services needed by retiring baby boomers over the next decade. Many retirees are looking for income-producing investments, but don't really know how to find them on their own.

A generous dividend

One of the nice things about Power Financial is that it pays investors a generous dividend to own it, with a current yield of 4.1%. That easily puts it in the top quartile of dividends on the TSX.

Plus, the dividend is easily sustainable. The current payout is \$1.40 per share annually, while the company's earnings for the last year came in at \$3.12 per share. That's a payout ratio of just 45%.

With a payout ratio that low, the potential exists for dividend increases. Although the company hasn't upped the distribution since 2008, there's plenty of history of dividend hikes before the Great Recession. Increasing the dividend in 2015 could help the company attract dividend growth investors, which could ultimately push the share price higher.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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2. TSX:IGM (IGM Financial Inc.)

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Author

nelsonpsmith

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