

Power Corporation of Canada vs. Power Financial Corp: Which Should You Own?

Description

The world is filled with difficult choices. Often, even though it seems like it might not matter which you choose, two similar choices offer two very different outcomes.

Consider **Power Corporation of Canada** ([TSX:POW](#)) and **Power Financial Corp** (TSX:PWF). Power Corporation is the parent company, with most of its assets tied up in Power Financial. Since they're essentially the same company, why should you care which one you own?

Let's take a closer look at these two very similar companies and see if we can spot a winner.

The skinny

First of all, let's simplify what each company owns. We'll start with Power Financial.

Essentially, Power Financial has three main assets. It owns 67.1% of **Great-West Lifeco**, one of Canada's largest life, disability, and medical insurance companies. It also owns 58.7% of **IGM Financial**, the parent of Investors Group and Mackenzie Financial. Finally, it owns a stake in **Pargesa**, a Belgium-based holding company that takes large stakes in undervalued European stocks.

Power Corporation owns 65.7% of Power Financial, as well as many private investments. Some of the more notable ones include Square Victoria Communications Group (which owns several Quebec newspapers and their corresponding websites), as well as Power Energy, which invests in the renewable energy sector.

Essentially, these companies are easy to value, with one big exception — the value of the private investments.

Valuing the sum of the parts

By looking at the value of each company's assets and comparing it to the share price, we can determine which Power company trades at the bigger discount.

Let's start with Power Financial. The value of its stake in Great West Life is \$24 billion and the value of its stake in IGM Financial is \$6.7 billion. The stake in Pargesa is worth approximately \$2.1 billion once you convert euros to Canadian dollars. All together, the equity value of Power Financial's investments comes to \$32.8 billion, which is about \$6 billion more than its \$26.6 billion market cap.

There are two ways we can value Power Corporation. We can assume Power Financial is worth \$32.8 billion, or we can be conservative and go with its market cap. Let's be conservative and value Power Corporation's stake in Power Financial at \$17.5 billion, which is 65.7% of its market cap.

Valuing Power Corporation's private assets is difficult, since it only partially breaks down the value of each in its reporting. For the sake of this article, I'm going to assume those assets are worth \$2 billion.

Thus, Power Corporation's parts are worth \$19.5 billion, while the common stock has a market cap of just \$13.8 billion.

Which one is the better bet?

While it appears Power Corporation is the better deal, keep in mind a couple of things. First, we haven't factored in debt. And second, Power Corporation will always trade at a larger discount to Power Financial. That's because Power Corporation is a conglomerate that owns another conglomerate. The market gives it the conglomerate discount twice, while Power Financial only gets it once.

Since both companies trade at pretty normal discounts to the sum of their parts, we're forced to value both conglomerates in a different way. From both a P/E and dividend yield perspective, Power Financial is the cheaper stock. It has a P/E of 12x and a 3.7% dividend yield, while Power Corporation has a P/E of 13x and a dividend of 3.5%. Even over the last decade, Power Financial shares have outperformed the parent.

Although it doesn't seem like there's much of a difference, I'd go with Power Financial over Power Corporation. Still, both are solid companies that are widely owned for a reason. Both will probably perform pretty similarly over time.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:POW (Power Corporation of Canada)

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