



Power Financial Corp.: Great Assets Selling at 25% Off

Description

Perhaps the biggest thing great investors have in common is just how different they are.

Warren Buffett is a famous student of the market, reading 500 pages per day. George Soros has been almost equally successful, and he's been known to buy positions with almost zero research with a focus on momentum. Bill Ackman and Carl Ichan are well known for actively working with management, while Walter Schloss beat the market by actively avoiding annual meetings and phone calls with management.

Still, for the most part, the best investors in history have one thing in common. They tend to focus on buying great assets for a discount. These discounts often don't show up without a lot of digging.

But sometimes, for whatever reason, the discount is in plain sight, just waiting for investors to take advantage of it. Such an opportunity exists with **Power Financial Corp.** (TSX:PWF) today.

Easily valued assets

Power Financial is a very easily valued company. It consists of three moving parts.

The first is its stake in **Great-West Lifeco** ([TSX:GWO](#)). Power Financial owns a 67.4% stake in the insurer, which is one of Canada's largest. Great-West has several operating subsidiaries Canadians are likely familiar with, including London Life, Canada Life, and Putnam Investments. As I type this, the stake is worth \$23.9 billion.

Power Financial also owns 60.1% of **IGM Financial Inc.** ([TSX:IGM](#)), the parent of Investors Group and Mackenzie Investments, one of Canada's largest money managers. There's also a small bit of cross-ownership of IGM and Great-West shares from each respective company's funds. The current value of Power's IGM stake is \$5.5 billion.

The third stake is a little trickier to value. Power Financial and the Frere family group of Belgium each own 50% of Parjointco, which in turn owns a 55.6% equity interest in Pargesa Holding SA. Pargesa then owns Groupe Bruxclles Lambert, which holds large positions in major European companies.

As of June 30 this asset was worth approximately \$3.2 billion when converted back to Canadian dollars.

All together, Power's assets are worth \$32.6 billion net of debt, yet the company only has a market cap of \$24 billion. That's a discount of more than 26%.

Will the discount ever go away?

For many of you who follow Power Financial, this discount information isn't new. The stock has traded for years below the net value of its assets. A typical discount is between 20% and 25%.

The only reason why the discount is a little wider than usual is because financials are generally out of favour right now. Investors are nervous about the Canadian housing market, and ETFs are increasingly becoming the default choice for individual investors, replacing expensive mutual funds.

But at the same time, there are a couple of potential catalysts that could send Power Financial shares much higher. The Desmarais family could decide to take the company private. Or the company could decide to sell one of the holdings. IGM Financial is the logical choice, since it's unlikely that Canadian regulators would be in favour of Great-West Life being acquired.

Ultimately, nobody knows when (or if) the discount will go away. But investors are getting a great 4.3% dividend to wait, which is about twice as much as risk-free, fixed-income options such as GICs and government bonds. And buying the assets at such a discount just increases the safety of the investment.

Power Financial is a way to get an even greater discount to a sector that's already the cheapest in the market. I doubt investors who buy today and hold over the long term will be disappointed in Power Financial.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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2. TSX:IGM (IGM Financial Inc.)

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