



Power Corporation of Canada: The Yield Is Not the Reason to Own it

Description

The debate whether to own **Power Corporation of Canada** ([TSX:POW](#)) or its sister company, **Power Financial Corp.** (TSX:PWF), has been going on for years; it's a discussion that will likely carry on well after I'm gone.

Income investors right now can buy Power Financial with its 4.97% yield as of February 12 compared to 4.51% for Power Corporation. If income is your only concern, a 46 basis-point difference is likely a deal breaker. But if you also want capital gains, the decision is much trickier.

Power Corporation owns 65.6% of Power Financial, which in turn owns 67.1% of **Great-West Lifeco Inc.**, 58.7% of **IGM Financial Inc.**, and a 50% interest in Parjointco, a joint venture with the Frere family of Belgium.

Power Financial has a market cap of \$21.1 billion, which puts the value of Power Corporation's majority interest at \$13.84 billion, \$2.5 billion more than the company's current market cap and that doesn't take into account its holdings that are separate from Power Financial, which include investments in media, asset management, private equity, and renewable energy.

In its Q3 2015 earnings report ended September 30 2015, Power Corporation's investments generated \$144 million in income or 30% of its overall operating earnings. None of that is factored into the value the markets put on Power Corporation's stock.

Put another way, its operating earnings in the first nine months of fiscal 2015 were \$1.26 billion. Projected over four quarters, it will likely generate \$1.8 billion for fiscal 2015 in its entirety. With a market cap of \$11.3 billion, Power Corporation is trading at 6.2 times its 12-month operating earnings.

Two years earlier, Power Corporation's market cap was \$13.1 billion with operating earnings of \$959 million, half of what they'll be in 2015, yet it traded at almost 14 times operating earnings.

Meanwhile, Power Financial also trades at a substantial discount to its intrinsic value—but not to nearly the same extent as Power Corporation.

Power Financial's operating earnings through the first nine months of 2015 were \$1.7 billion, a 10% increase over the same period in 2014. In Q4 2014 it generated \$525 million in operating earnings. Add 10% on top of that for Q4 2015 and you get 12-month operating earnings for 2015 of \$2.3 billion and a multiple of 9.3 times operating earnings—50% more than Power Corporation.

Two years earlier, Power Financial had a market cap of \$25.6 billion or 15 times its \$1.7 billion in 2013 operating earnings.

Bottom line: Power Corporation was valued in 2013 at a similar multiple to Power Financial—14 times vs. 15 times. Today, Power Corporation trades at a multiple one-third less than Power Financial.

That indicates to me that Power Corporation is the better buy.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:POW (Power Corporation of Canada)

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