



3 Reasons Investors Should Be Bullish on Power Financial Corp.

Description

When people talk about **Power Financial Corp.** (TSX:PWF), they usually focus on one thing: the discount compared to the underlying value of the assets.

Power Financial has three main assets. The first is a 67.4% stake in **Great-West Lifeco Inc.** ([TSX:GWO](#)), one of Canada's largest insurance companies. Great-West has a market cap of \$34.6 billion, which makes Power Financial's stake in the company worth \$23.3 billion, give or take a few million.

It also owns 60.1% of **IGM Financial Inc.** ([TSX:IGM](#)), the parent of well-known wealth managers Investors Group and Mackenzie Investments. IGM has a current market cap of \$8.76 billion, which values Power Financial's stake in the company at \$5.26 billion.

Additionally, Power Financial has a 50% stake in a company called Parjointco, a holding company which owns a 55.6% equity interest in Pargesa Holdings, a company that holds big positions in European companies. When converted back to Canadian dollars, this position is worth approximately \$3.5 billion.

Altogether, Power Financial should trade at a market cap of \$32.1 billion, yet it only trades at a market cap of \$22.55 billion. That's a discount of approximately 30% compared to the sum of the parts.

But Power Financial has always traded at a discount to the sum of its parts, so I'm not sure that's reason enough to buy it. There needs to be more to the story.

There is. Here are three additional reasons for investors to be bullish on Power Financial.

Great yield

There aren't many dividends better than Power Financial's.

After being a real dividend-growth machine in the years immediately preceding the Great Recession, the company took a break, choosing to maintain the quarterly dividend at \$0.35 per share for a few

years.

That changed in 2015. The company announced it was finally hiking its dividend a whole \$0.025 per share each quarter. It wasn't much, but it opened up the door for additional dividend increases.

That could easily happen in 2016. The company pays \$1.49 annually in dividends, while earning \$3.22 per share over the last 12 months. That's a payout ratio of just 46.3%, which is quite low for a stock with a 4.7% yield.

There aren't many stocks out there paying a nearly 5% yield with substantial dividend-growth potential.

Cheap valuation

Power Financial shares haven't done much since 2013. They did trade closer to \$40 each early in 2015, but have since fallen to the \$32 range.

And yet earnings are much higher. In 2012 the company earned \$2.27 per share, a slight decline from the result of \$2.31 per share posted a year earlier. Earnings improved to \$2.63 per share in 2013, \$3.00 per share in 2014, and then to \$3.22 per share over the last 12 months. Full-year 2015 results aren't out yet.

In 2013 shares traded at approximately 13 times earnings. Earnings have since increased some 30%, but shares haven't really appreciated in price. That means shares are trading hands at less than 10 times trailing earnings.

Analysts think 2016 will be even better. Consensus earnings estimates for 2016 are \$3.34 per share, putting Power Financial at just 9.6 times forward earnings.

Investments in FinTech

Power Financial has quietly made a couple of interesting investments in two Canadian start-up financial technology companies.

It teamed up with several other companies to invest \$6.4 million in a small Canadian personal loan company called Borrowell. Borrowell gives personal loans to folks who are suffering from high interest credit card debt with decent credit ratings.

Power Financial also invested \$30 million in [Wealthsimple](#), one of the leaders in Canada's burgeoning robo-advisor space. Wealthsimple targets tech-savvy, younger investors by using software to determine the proper asset allocation for investors. The software then helps the investor build a portfolio of low-fee ETFs.

Admittedly, an investment of just over \$30 million isn't much for a company the size of Power Financial. But it does indicate a willingness of the company to invest in the future. There's also the argument to be made that it's hedging its bets. The future of the high-fee wealth management business enjoyed by IGM Financial looks to be in trouble.

Power Financial will likely always trade at a discount to the sum of its parts, and that's okay. A combination of an attractive dividend, cheap valuation, and potential upside in its stakes in Wealthsimple and Borrowell are enough reason for investors to take a very serious look at the

company.

CATEGORY

1. Dividend Stocks
2. Investing

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Author

nelsonpsmith

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