

## 3 Reasons to Load Up on Power Financial Corp. (and 1 Reason to Be Cautious)

### Description

For the most part, Canadian stocks have shrugged off the latest market turmoil caused by Britain's potential exit from the European Union.

Before votes were officially tallied, the TSX Composite Index traded at a little over 14,100 points. After two down days in the aftermath of the surprise "Leave" vote, markets rallied on Tuesday and again on Wednesday morning, ending up less than 1% below pre-Brexit levels. In other words, this whole thing has been pretty much a non-event.

A few select Canadian stocks really took this news on the chin because of significant European exposure—a move that has created some buying opportunities. This is very good news for investors looking at **Power Financial Corporation** (TSX:PWF), a stock I believe offers potential for attractive long-term returns.

Here's why.

### Sum of the parts

Power Financial is a holding company with three main parts. It has a 67.4% stake in **Great-West Lifeco**, one of Canada's largest life insurers. It also owns a 61.2% stake in **IGM Financial**, the parent company of wealth management companies Investors Group and Mackenzie Financial. Finally, the company holds approximately 28% of a European holding company called Pargesa, which in turn has big positions in a handful of other European stocks.

It also holds a 59.8% stake in WealtheSimple, an online-only roboadvisor which uses software to create ETF portfolios for common investors. This position isn't material compared to the others.

What makes Power Financial interesting is that the company trades at a pretty steep discount to the sum of its parts. It currently has a market cap of \$20.72 billion. Yet the value of its underlying assets is approximately \$27 billion after taking away the value of its preferred shares.

In short, Power Financial investors are getting \$1 in assets for approximately 77 cents.

### Valuation

Most of Power Financial's earnings come from this side of the ocean, meaning the current European issues won't really affect the company's bottom line. Thus, we can assume 2016 earnings estimates are relatively safe.

On a forward earnings basis, Power Financial is one of the cheapest stocks on the market. Analysts estimate the company will earn \$3.07 per share in 2016, putting shares at just 9.5 times earnings expectations. That's incredibly cheap.

If we look at 2017 analyst estimates, the stock gets even cheaper. Collective earnings expectations for next year come in at \$3.34 per share, putting Power Financial at just 8.76 times earnings.

### **A great dividend**

After years of paying a steady dividend of \$0.35 per share each quarter, it appears as though Power Financial has finally gotten serious about increasing its dividend.

It has rewarded investors with dividend raises in both 2015 and 2016, hiking the payout to \$0.3725 per share quarterly, and then \$0.3925 per share quarterly. Today that's good enough for a 5.4% yield.

With a payout ratio of just 51% of projected 2016 earnings, Power Financial's dividend is pretty secure. In fact, investors can likely expect annual dividend raises going forward.

### **One reason to be cautious**

There's a lot to like about Power Financial. But investors do have to keep one thing in mind.

Although the company's stake in IGM Financial is only worth a little over \$5 billion, it appears to be much of the reason why shares are selling off. In a world where low-cost solutions are recommended by just about every financial pundit, many are seeing Investors Group and its business model of selling high-cost funds as a relic of the past.

If you look at Power Financial's recent share price compared to IGM Financial's, they virtually mirror each other. It sure looks to me like the market is overly pricing in what it views to be toxic IGM exposure.

But at the same time, I'm not sure the troubled division is really doing so badly. IGM shares trade hands at just 11.7 times trailing earnings. IGM also pays a 6.4% dividend that's easily covered by earnings. And the company is hard at work, trying to reinvent itself for today's investing world.

Power Financial Corp. is one of Canada's finest dividend stocks trading at a discounted price. Investors would be smart to ignore any IGM-related issues and load up on this proven winner while still getting a bargain.

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### **Date**

2025/07/07

### **Date Created**

2016/06/29

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