Great-West Lifeco Inc.: An Interesting Opportunity

Description

Great-West Lifeco Inc. (TSX:GWO) is Canada's second-largest publicly traded life insurer, trailing behind only **Manulife Financial Corp**. It has insurance operations across Canada, the United States, and Europe, as well as wealth management divisions in each of these locations.

The company's shares aren't doing so well lately, recently plunging to lows not seen since 2o14. This is partially because of Manulife's latest earnings, which were lower than analyst expectations and revealed anemic investment returns. Investors aren't very excited about the insurance business in general, concerned that prolonged low interest rates will really take a bite out of profitability.

But are things really so dire? I don't think so. Here's the case for loading up on one of Canada's top financial companies while the price is low.

Still solid earnings

I can understand why investors are bearish on the insurance industry. Companies take in premiums that likely don't have to get paid out for years. They then invest those premiums–usually in bonds–and pocket the interest gained as profit. It's a good business model–at least in a world with decent interest rates.

Great-West is still managing to invest those premiums profitably, even if it can't get as much interest as it would like. Management is also focusing on growing its European division, including making an acquisition in Ireland. That should help the bottom line as well.

Over the first six months of 2016 profits came in at $1.30 per share, compared to $1.36 last year. Nobody wants to see profits decline year over year, but Great-West's earnings are still pretty good.

Analysts project the company will end up with earnings of $2.68 per share, meaning they expect the rest of the year will be a little better than the first half. And 2017 is expected to be better with net income growing to $2.92 per share.

This gives the company a P/E ratio of 11.7 times 2016's projected earnings. That's a pretty solid valuation in today's world.

Good balance sheet

Investors don't have to worry about the health of Great-West's balance sheet. It's healthier than ever. Its Minimum Continuing Capital Surplus Requirements ratio stood at 232% as of June 30. Any number over 100% is deemed to be acceptable by OSFI.

This kind of financial flexibility gives management a few different options. It can seek potential acquisitions, as it did recently when it made a small deal in Europe to bolster operations there. Management is also buying back shares at a fairly aggressive pace; almost six million shares have been eliminated.

Solid dividend growth

Great-West isn't just spending its cash on share buybacks. It continues to give investors attractive dividends with good dividend growth.

The company currently pays $0.35 per share quarterly, which is good enough for a 4.4% yield. That dividend is higher than both of its main rivals', Manulife and **Sun Life Financial**, which pay 4.3% and 3.9%, respectively.

Great-West also has good dividend growth, at least lately. The dividend was frozen at $0.31 per share for years before the company finally gave investors a two-cent-per-quarter raise in 2015. And 2016 saw another two-cent-per-share raise.

With a payout ratio of 51.7% today, the company should be able to give investors dividend raises annually for the next few years at a minimum, especially now that the board of directors has made dividend growth a clear priority.

Should you buy?

Great-West is a solid operator with a good valuation in a sector that investors don't particularly like right now. Shares are trading at lows not seen since 2014, which is usually a pretty good time to pick up a company with a solid history of outperformance.

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1. Dividend Stocks
2. Investing

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1. Editor's Choice

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