Is AGF Management Limited Worth Consideration?

Description

When looking at shares of **AGF Management Limited** (TSX:AGF.B), it's easy for new investors to get excited. Investors buying shares at the current price of approximately $6.25 will receive a dividend yield in excess of 5% with the benefit of knowing that the dividend cut has already been done.

The company, which manufactures investment products that are sold by advisors, has been a well-known brand in the investment industry for many years. The company has now gone beyond the mutual fund business and currently offers exchange-traded funds (ETF), which, although profitable, lead to lower margins than traditional mutual funds.

Looking at the fate of this company over the past four years, shares have declined from close to $15 per share to a current 52-week low of $4.88 per share. To make things worse for long-term investors, the dividend was also cut from $0.27 per share per quarter to $0.08 per share. While many long-term investors have either sold out of the investment or lost a lot of money, the question remains: "What will turn this company around?"

Since fiscal 2013, top-line revenues have declined from $475 million to $415 million in 2016. The decline has been steady as the top-line revenues have declined in each year since 2013. Looking at the bottom line, earnings have not grown. In 2014, earnings per share were $0.68, which declined to $0.64 per share in 2015 and then to $0.53 per share in 2016. While these number are better than 2013's abysmal earnings of $0.25 per share, investors are collectively not valuing the company at any more than a trailing price-to-earnings ratio of 12 times. Clearly, the decline of this business is not expected to reverse itself in the near future.

Let's look at a competitor: shares of **CI Financial Corp.** (TSX:CIX) are priced at approximately $26.75 per share and offer a similar 5.25% yield, but shares trade at a higher trailing price-to-earnings multiple. Shares trade closer to the 14 times earnings.

The revenues, which increased in fiscal 2014 and 2015, began to recede in fiscal 2016. While revenues declined by close to 2.5%, the bottom line felt more pain. Earnings per share decreased by close to 6.6% after steadily increasing over the three prior years. The significantly better news regarding CI Financial Corp has been the steady increase in dividends per share instead of a cut in the dividend (as was the case at AGF Management Limited).

While investors usually look for dependable businesses with the potential for growth, it is difficult to determine in this particular scenario if the two companies are simply stealing each other's lunches, or if the problem runs significantly deeper. While the money saved by Canadians will always need to be managed somewhere, the conundrum faced by wealth management companies is to continue delivering the service while meeting the demands for lower fees.

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ryangoldsman