This Company Would Make a Good Fit for Anybody's TSFA

Description

It's a good time to be an investor in **Power Corporation of Canada** (TSX:POW) with shares up over 7% in the past month.

That return looks even stronger when you consider that the TSX Composite has fallen more than 2% over that same period.

But then again, this is really nothing new for those invested in Power Corp.

After all, shares have averaged a 14% annual return per year since 2012. And that's in addition to the dividend yield, which currently sits at 4.46%.

This means investors have been earning close to 19% annually from holding Power Corp. stock — not a bad return if you can get it.

What does the company do?

Power Corp. is a financial holding company that essentially owns and manages other businesses.

These businesses remit a portion of their earnings back to Power Corp., which in turn reinvests in new businesses and returns the remaining portion to Power Corp. shareholders in the form of dividends and shares repurchases.

At present, Power Corp.'s largest holding is **Great-West Lifeco**, a major life insurance company with operations based in Canada and internationally.

The company's second-largest holding is **IGM Financial**. You may be familiar with IGM Financial through its subsidiaries Investors Group and Mackenzie Financial. Together with Investment Planning Council, IGM Financial is one of Canada's largest distributors of mutual funds and other managed products.

Rounding out the list of franchises the company manages is Pargesa S.A. Pargesa is a European holding company that Power Corp. jointly owns with Frère-Bourgeois/CNP Group.

Pargesa has interests in some of Europe's largest energy assets, in addition to some major water, waste management, and building materials companies.

Where does it fit in my portfolio?

Power Corp. is the ideal fit for a TFSA because it offers diversification and growth at a reasonable price.

The company's business is well diversified geographically with operations in Canada but also in the U.S. and Europe.

While other companies have sizeable business outside Canada, the added benefit of Power Corp.'s portfolio of businesses is that it is concentrated in developed markets.

This means that there is a lessened risk of major shocks to the economy, unforeseen regulatory changes that could affect the operations of the business, and even the threat of foreign currency swings, which can affect profits repatriated to Power Corp.'s Canadian earnings.

In addition to the geographic diversification, Power Corp. has interests in a variety of industries from insurance to asset management to waste and water management to energy and basic materials.

While the company's financial services businesses, along with its energy and materials businesses, all have direct ties to some of the more cyclical aspects of the economy, waste and water businesses offer more predictability, which gives the company flexibility to siphon cash from these more stable businesses to support the other businesses when their operations are more volatile.

Growth at a reasonable price

What's more, shares offer an attractive combination of growth and value.

The company's stock currently trades at a forward P/E of 9.4 times, which sits below that of the major Canadian banks.

Yet Power Corp. has been delivering above-average growth to investors as well over the past five years with annual revenue growth of 9.1%.

And while Power Corp. shares yield 4.46%, the company's payout ratio sits at under 50%, meaning there is plenty of room to grow the distribution for many years to come.

Meanwhile, shares still trade at very close to book value.

How Foolish would you have to be to not give consideration to this stock for your TFSA?

CATEGORY

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