



Looking Into Canada's Insurance Companies: Great-West Lifeco Inc.

Description

For investors considering shares in Canada's insurance companies, the second-biggest insurance company is **Great-West Lifeco Inc.** ([TSX:GWO](#)), which carries a market capitalization of \$35 billion. The company's shares are not the most exciting, however, carrying a beta of 0.65 and offering investors a yield of more than 4% at the current price of \$35.50.

Investors in the company have received an excellent return of 62% over the past five years while shares have returned no more than 5% over the past decade. Depending on the investment time frame, long-term investors may be either very happy or a little disappointed.

Since fiscal 2013, the company has paid out a considerable amount of earnings in the form of dividends. The dividends per share in 2013 were \$1.23, which increased to \$1.38 for fiscal 2017. The compounded annual growth rate (CAGR) of the dividend payment is no more than 3.9%. Earnings did a little better, increasing at a rate of 4.6% from \$2.38 per share in 2013 to \$2.72 per share in 2016. Given that earnings increased at a greater rate than dividends, investors have seen the percentage of profits shared with them (the dividend-payout ratio) decline from 51.7% to 50.7%.

In regards to the other half of the profits retained by the company, it is important to evaluate what is being done with that money. In 2013, the company made a total profit of \$2,408 million and ended the year with shareholders' equity of \$17,468 million. The return on equity (ROE) came in at 13.7%. When considering the most current fiscal year's results (2016), the net income grew to \$2,764 million, and shareholders' equity ended the year at \$22,002 million, leading to a ROE of 12.6%.

When considering the company's tangible book value, which is one of the main parts of the ROE, the company carries tangible book value of \$16.49 per share. Currently priced near \$35.50, the market no longer considers this to be a metric that will guide the share price. Great-West Lifeco's dividend yield of more than 4% is going to be much more of a guiding metric for the share price.

An approach taken by many investors purchasing shares in insurance companies is the low-risk/low-reward approach. Assuming the 4% dividend yield is safe, a little capital appreciation along the way can lead to an annualized return of 10% or so easily enough.

For investors searching for the most suitable name in this industry, shares of Great-West Lifeco may just be the name that carries the least amount of volatility and one of the best dividend yields in the market. Given the company's involvement with names such as Freedom 55 Financial and Canada Life, many clients are much more familiar with the company than they realize. The diversity of the various business lines reduced the total risk.

Tomorrow, we will look into the nation's biggest insurance company: **Manulife Financial Corp.**

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