Which Is the Better Buy: Fiera Capital Corp. vs. CI Financial Corp.?

Description

Fiera Capital Corp. (TSX:FSZ) is Canada's third-largest independent asset manager; **CI Financial Corp.** (TSX:CIX) is Canada's second-largest independent asset manager.

Both are good stocks, but if you can only buy one of them, by the end of this article, you'll know which one I believe is the better buy.

Reasons to own Fiera Capital

Talk about an asset manager in growth mode. Over the past five years, Fiera's assets under management have grown from $58 billion in 2012 to $117 billion at the end of 2016.

That growth in assets under management (AUM) has led to healthy increases in revenue and adjusted earnings over the same period. In 2012, Fiera had revenue and adjusted net earnings of $115.3 million and $19.1 million, respectively. In 2016, it had revenue and adjusted net earnings of $344.1 million and $95.2 million, respectively.

Over the past four years, it's grown revenues on a compounded annual basis by 31.4%; over the same period, it's increased adjusted net earnings at 49.4% compounded annually.

Fiera's growth in AUM, revenue, and adjusted net earnings over the past four years explains why its stock has averaged an annual return of 25% over that period.

Up 20.4% year to date, Fiera continues to build a business that's more diversified by client, region, and asset class.

For example, in 2012, institutional markets accounted for 54% of its AUM. Today, that's down to 42.6% with most of the difference redirected to the retail markets, where it continues to make inroads.

Fixed-income assets, where Fiera got its reputation, accounted for 64% of its assets in 2012. That's down to 50.9%.

Lastly, and probably most importantly, non-Canadian revenue now represents almost 50% of Fiera's annual revenue compared to just 1% four years ago.

An investment in Fiera's stock today is an entirely different risk profile than in 2012. And that's a good thing.

Reasons to own CI Financial

In August, CI announced it was buying Sentry Investments for $780 million — an acquisition that adds $19 billion in assets under administration, or an increase of about 16%.

If you're one of the lucky employees of Sentry who owns shares in the company, CI's acquisition calls for a cash component of $230 million and $550 million in CI shares. I would suggest you hang on to those shares.

"[CI Financial is] paying 4.1% assets under management at Sentry, which I would suggest is a pretty stiff number," BNN commentator Andrew McCreath said August 10. "They are paying what appears to be a full price for an asset that undoubtedly CI will be able to extract cost savings from — because that is one thing they are great at."

To be competitive in the investment industry today, you've got to be big to compete. With this latest deal, CI is closing in on $200 billion in AUM. By comparison, **BlackRock, Inc.** (NYSE:BLK), the world's largest asset manager, managed US$5.7 trillion as of June 30, 2017.

It's all relative.

For me, I became interested in CI because of its purchase of First Asset in 2015. That deal got it into the lucrative ETF market. It now sits in the seventh spot here in Canada with 2.5% market share.

CI is a well-run asset manager you can be confident will be around in five to 10 years.

Which to buy?

While I like the transformation Fiera has made over the past four years, CI's valuation — a free cash flow yield of 8.8% — and 5.1% dividend yield make it too good to pass up.

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