



## 3 Companies Power Corporation of Canada Should Buy

### Description

One paragraph of a recent *Globe and Mail* article about **Power Corporation of Canada** ([TSX:POW](#)) puts into perspective the dilemma facing the Desmarais family who controls the holding company through a dual-class share structure.

“Over the past 10 years, Power Corp.’s total shareholder return has been a modest 23%, or 2.1% annualized. All of that has come from dividend payments — \$5 billion in the past decade — rather than share price appreciation,” stated the *Globe and Mail*’s Jacqueline Nelson and Andrew Willis. “Other blue-chip Canadian financial stocks have generated much bigger returns: 188% for **Brookfield Asset Management Inc.**, 184% for **Royal Bank of Canada.**”

That’s got to be incredibly difficult for the two Desmarais sons — Paul Jr. and Andre — who’ve run the company together since 1996. No one wants to be the generation that killed the family business.

I’ve been a fan of Power Corporation since I read the section in Peter C. Newman’s book, *The Canadian Establishment*, about Paul Desmarais, Sr., who built a failing bus company into a business with \$1.5 trillion in assets under administration.

On several occasions, I’ve [recommended](#) Power Corporation stock, in part, because of its 4.4% [dividend yield](#), but also because of the untapped potential of its assets. This company’s market cap should be higher than \$13.5 billion, but because of its holding company discount, it’s failed to deliver for investors in recent years.

**Power Financial Corp.** (TSX:PWF) CEO Jeffrey Orr believes one way to jump-start both companies’ stocks is to acquire a mutual fund company in the U.S. to merge with Putnam Investments, the American mutual fund company it acquired for \$4.6 billion in 2007.

**Here are three potential candidates**

Orr believes the potential acquisition should be managing in the area of \$150 billion in mutual fund assets under management. According to the Mutual Fund Directory, John Hancock Funds have about \$135 billion (2016) in mutual fund assets under management.

**Manulife Financial Corp.** ([TSX:MFC](#))([NYSE:MFC](#)) has been rumoured to be considering selling or spinning off the John Hancock unit, which it paid \$15 billion for in 2003. Today, it's said to be worth about two-thirds that number, so the more likely scenario would be a spin-off, not to mention Manulife probably wouldn't want to sell to one of its biggest insurance competitors.

Another possibility is for Power Corporation to buy the mutual fund business of Guggenheim Partners, a U.S. investment firm that tried to sell the entire retail business, but **Invesco** would only buy the ETF unit for US\$1.2 billion.

Currently, with US\$240 billion in assets under management, Guggenheim Partners appears to be a motivated seller and fits Orr's criterion of about \$150 billion in assets under management.

This last one is the craziest of the trio, but it certainly would catch the attention of investors on both sides of the border.

Why not buy **Ameriprise Financial, Inc.** ([NYSE:AMP](#))?

Or at least figure out how to swing a merger between the two companies that allows Power Financial to retain control of all of its businesses, including Ameriprise. Power Financial's market cap is the same as Ameriprise's at \$25 billion. However, one's in Canadian dollars and the other is in U.S. dollars, so it would be 25% more expensive right off the bat without considering the premium.

If institutional investors are as impatient as it seems they are for big moves, buying Ameriprise would be a huge nod in their direction.

### **Bottom line on Power Corporation**

I still believe in it as an investment and don't have a problem with the holding company structure, but I do think it needs to act with greater urgency to make something happen to kick-start its stock.

Power Corporation has been dormant for far too long.

### **CATEGORY**

1. Investing

### **POST TAG**

1. Editor's Choice

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1. NYSE:MFC (Manulife Financial Corporation)
2. TSX:MFC (Manulife Financial Corporation)
3. TSX:POW (Power Corporation of Canada)

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