1 of the TSX's Underachieving Dividend Stocks Is Ready to Grow

Description

If you ask me which stock on the TSX has been the biggest underachiever over the past five years, **Power Corporation of Canada** (TSX:POW) would have to be at the top of the list.

Despite controlling a plethora of financial services companies, including Investors Group, Mackenzie Investments, Investment Planning Counsel, Canada Life, Wealthsimple, and **Great West Lifeco Inc.**, it just can't seem to shake its holding company discount.

I can remember reading *The Canadian Establishment, Volume 1* as a high school student and thinking how brilliant Paul Desmarais was for taking a broken-down bus company and building a conglomerate worth billions.

Desmarais died in October 2013; Power Corporation's stock has basically gone sideways ever since. Its all-time high of $40.97, reached in October 2007, must seem like several galaxies away from where it trades today.

The road to $40

Currently yielding 4.8%, income investors must look at Power Corporation stock the way a recovering alcoholic views an open bar: so tempting, yet so bad for you.

Fool.ca colleague Joey Frenette addressed this very issue in November when talking about **IGM Financial Inc.** (TSX:IGM), which Power Corporation controls through its 66% stake in **Power Financial Corp.**

"Canadians are starting to realize the true cost of actively managed mutual funds, and with more options available, I believe that's a major long-term headwind for IGM's wealth management businesses," wrote Frenette. "That's more trouble for IGM's earnings trajectory, and that means dividend hikes will be less frequent in the years ahead."

He believes IGM is a value trap, which means, by extension, he probably also views PowerCorporation through the same lens.

Is he right?

Only a futurist can answer that question, but at the very least he makes some compelling arguments why the company's best days are behind it.

With a 59% voting stake in Power Corporation, the Desmarais family are actively working to ensure this isn't the case.

For example, the company has invested a total of $165 million in Canadian robo-advisor Wealthsimple, a Toronto-based business with $1.9 billion in assets under management scattered across 65,000 accounts and since January 2017, also operating in the U.S.

The return on this investment over the next 10 years could be in the billions. But you've got to be patient. Power Corporation continues to broaden its holdings beyond the traditional IGM Financial and Great West Lifeco revenue and profit silos.

Paul Desmarais was known for making big acquisitions.

His sons are more conservative, which is often the case when moving from an entrepreneurial founder to the private-school-educated next generation.

In December, I'd suggested that the company should make a big mutual fund acquisition to merge with Putnam Investments, the U.S. company it acquired for $4.6 billion in 2007.

I'm not sure Andre Desmarais and Paul Desmarais III, who are co-CEOs, want to make that big a splash, but recent moves at both IGM and Great West Lifeco suggest the duo are willing to do what it takes to get unstuck.

"Power Corp. is cognizant of the emerging issues and challenges in the financial services industry presented by the low-interest-rate environment, increasing regulatory requirements, disruptive technological forces and higher customer expectations," ratings agency DBRS Ltd. wrote in a recent report. "To counter these emerging risks, the company is investing broadly in digital capabilities throughout its operating subsidiaries to enable them to modernize and adapt to the changing environment."

Dividend investors with patience

Personally, I see some light at the end of the tunnel. In the meantime, I don't believe a 4.8% yield is anything to sneeze at.

Power Corporation is a lot of things. Value trap is not one of them.

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