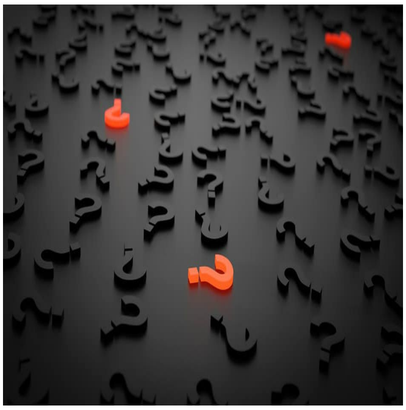

Is the Best Dividend Stock on the TSX a Value Trap?

Description

It's currently the Canada Stock Channel's top-ranked dividend stock, with a yield wavering around 5%. The share price has dipped – almost alarmingly so – creating what eagle-eyed investors may be tempted to view as a value opportunity. And it bills itself as being diversified as heck. But is **Power Corporation of Canada** (TSX:POW) actually a value trap? Let's take a closer look.

Buy the dip or skip?

When investors speak to a broker or other financial products salesperson and get one of those ready-made portfolios that more hands-on shareowners wouldn't touch with a stick, they end up with a diversified package. It will have a bit of everything, like those old-fashioned Christmas hampers that people used to save up for in the 1980s. But they won't really know what's in it, or really how it works.

Buying stock in a diversified company is a bit like that. Investors fork over their cash and trust that the CEO of said company knew what they were doing when they snapped up all those other little companies. Some will be good — others not so good.

Power Corporation of Canada is one of those diversified companies. It's trading near its 52-week low at about $30 a pop, representing an 8% dip since the start of the year. Straddling North America and Europe with some interests in Asia, Power Corporation of Canada looks stable and solvent.

But while it may be sold as an already diversified stock, it mainly deals in financial products across two currently volatile geographical markets. So while its (seemingly) undervalued stock looks good now, will it go the distance?

Unboxing is the new detoxing

Let's break this company down and see exactly what's inside, shall we?

Power Corporation of Canada has four main operations. First up, it owns **Great-West Lifeco Inc.** (TSX:GWO), which deals in various financial products, including life insurance (and other insurance products, such as reinsurance) and various investment products. It has fairly diversified itself in terms of markets; customers are located in North America, Europe, and Asia.

Power Corporation's second big interest is that of **IGM Financial Inc.** (TSX:IGM), which specializes in financial products – mainly planning services and investment, including high-fee mutual funds. It appears that asset growth may be an issue for this company, as Fintech and cheaper competitors nibble at its business model. With no obvious way to increase earnings-per-share, IGM is treading water.

Parjointco N.V. is a Dutch holdings company that owns interests in a variety of European stocks, ranging from minerals, water, waste services, energy, and wines and spirits. It also includes interests in nested holdings companies.

The fourth main area of Power Corporation's operations is its own corporate activities.

So what's the verdict? Really, the best thing Power Corporation has going for it in the long run is Great-West Lifeco. However, the life insurance sector is currently moribund. Subtract the cliff-facing IGM and you have a handful of assorted European interests coupled with a succession of holdings companies that are turtles all the way down. All in all, Power Corporation is a bit of a mixed bag.

The bottom line

Analysts are saying hold, and this author agrees. While Power Corporation looks tasty on the face of it, there's too much uncertainty in the markets to be sure that this is a good long-term buy. And if its share price doesn't pick up in the short- to medium-term – and it might not by any appreciable amount – then you'll be left holding a big fistful of nothing. If it looks like a value trap and it smells like a value trap, then chances are the best dividend stock on the TSX *is* in fact a value trap.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. TSX:GWO (Great-West Lifeco Inc.)
2. TSX:IGM (IGM Financial Inc.)
3. TSX:POW (Power Corporation of Canada)

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Date
2025/07/03
Date Created
2018/05/21
Author
vhetherington