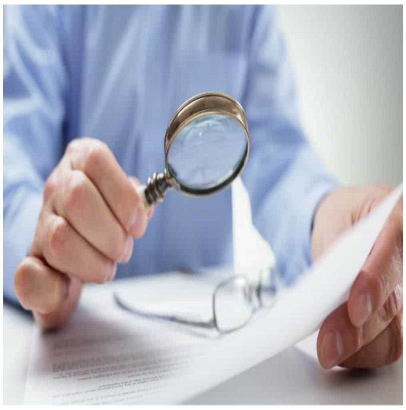

Lock In Double-Digit Gains With This Undervalued Financial

Description

It hasn't been the best year for **Power Financial** (TSX:PWF). Year to date, the company has lost approximately 10% of its value. It is also trading at the lower end of its 52-week range.

As an insurance holdings company, Power Financial should be in a position to benefit from rising interest rates. Interest rates have a direct impact on the profitability of insurance companies. Historical trends have shown that profitability increases along with a rise in interest rates. So, why has Power Financial struggled?

Poor execution

The truth is, Power Financial hasn't delivered in the past number of years. Earnings have been trending downwards with lower year-over-year earnings in both 2016 and 2017.

This was primarily a result of significant write-downs and poor showings from its two primary subsidiaries, **Great-West Lifeco** and **IGM Financial**. The good news is that the worst seems to be in the rear-view mirror.

Turning the corner

In early August, Power Financial announced record quarterly earnings. Second-quarter earnings per share (EPS) of $0.92 beat analyst estimates for earnings of $0.86 per share. This marked the fifth straight quarter that the company has either met or beat expectations.

Analysts expect the company to post EPS of $3.41 in 2018. This is 42% above the $2.40 it made in 2017 and is a company record. Given recent results, execution is no longer the problem. Power Financial is being weighed down by an overhang of negative investor sentiment.

Investing in FinTech

The company has committed to making significant investments in FinTech. Thus far, it has invested more than $230 million in 32 FinTechs.

Most notably, the company is the primary backer of Wealthsimple, Canada's largest robo advisor. Wealthsimple recently announced it intends to offer Canada's first zero-commission trading platform. Whereas U.S. investors have had this option for years, this is a first in Canada. This is certain to drive new customer growth.

Wealthsimple has grown at a rapid pace and now has over $2.5 billion in assets under management. It is these types of investments that set Power Financial apart from industry peers.

Great value

Trading at 10.7 times earnings, the company is cheap. This is significantly below the industry average price-to-earnings (P/E) ratio of 15 and its historical P/E ratio of 13.3. Should the company trade in line with historical averages, it would trade at $38.34. This is 23% upside.

Analysts also believe the company to be undervalued. They have an average one-year price target of $35.79, implying 15% upside.

Power Financial has a P/E-to-growth (PEG) ratio of 0.79. The PEG ratio was a favourite of famed value investor Peter Lynch. A PEG under one signifies that the company is undervalued.

It is only a matter of time before the market recognizes it is undervaluing Power Financial. Don't make the same mistake.

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