

Value Investors: It's Time to Check Out IGM Financial (TSX:IGM) and CI Financial (TSX:CIX)

Description

In a world where thousands of investors worry about fees, selling high-cost mutual funds is a tough place to do business.

Passive investing through exchange traded funds (ETFs) has also gotten a nice boost over the past few years because of solid performances from the underlying indexes. Actively managed funds have done well too, but funds without a big position in sexy technology stocks have been lapped by the competition.

Because of this trend away from actively managed investments, many of Canada's wealth management stocks have struggled of late. **CI Financial Corp** ([TSX:CIX](#)) shares are down 29% over the last year, while **IGM Financial Inc.** ([TSX:IGM](#)) shares have fared a little better, falling some 21% during that period.

Dividend investors could at least take solace in knowing both companies paid generous dividends. Just a couple of months ago, both companies offered dividend yields of at least 6%. But CI Financial recently slashed its payout in half, and it's easy to speculate that IGM Financial might also be considering a dividend cut.

That said, there are reasons to be bullish on these two companies going forward. Value investors who buy today may be getting one heck of a bargain.

A transforming business

Both companies are moving away from the traditional model of selling mutual funds to retail investors into offerings that are better suited to entice high net worth individuals.

CI Financial has its Assante Wealth Management division, which specializes in wealthy clients. It has also expanded into the ETF field by buying First Asset, which has a few billion dollars under management and it purchased Virtual Brokers, a discount Canadian stock brokerage. These parts of the business are seeing growth, while the traditional mutual fund part of the company continues to be hit by investor redemptions.

IGM is following a similar path. It has outlined a plan where all of its Investors Group agents will be required to get their Certified Financial Planner designation. The company has also dipped its toe into the ETF space and has spent nearly \$650 million buying a 13% stake in China Asset Management, the leading wealth manager in China.

The bottom line? While both of these companies are still big into the traditional mutual fund business, they are both taking steps to change with the times. These moves should pay dividends down the road.

Taking care of shareholders

On the surface, CI Financial's decision back in August to slash its dividend nearly 50% looked pretty grim. But once we dig a little deeper things don't look nearly so bad.

CI Financial generated approximately \$670 million in free cash flow over its last 12 months. It paid investors some \$380 million in dividends over the same period. Most of the remaining free cash flow went toward share repurchases.

The only difference now is management is focusing on share buybacks. They believe the stock is undervalued and plan to spend up to \$1 billion buying back shares over the next two years. If all goes according to plan, CI could repurchase 20% of its shares over the next year.

IGM continues to pay its generous 6.6% dividend. It even hiked the payout a couple of times since 2012. The company did repurchase some 12 million shares between 2014 and 2016, but stopped the buyback after the China Asset Management deal.

The bottom line

Both CI Financial and IGM Financial offer a decent value at today's prices. IGM has a trailing P/E ratio of just over 13, while CI's P/E is under 10.

Personally, I chose to invest in CI over IGM for a few different reasons. The biggest one is the massive share buyback. I also like CI's push into other assets, and I love its dirt cheap valuation. I believe the next bear market will slow the move towards purely passive investing.

Value investors, take notice. It just might be time to take another look at this struggling sector.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:CIX (CI Financial)
2. TSX:IGM (IGM Financial Inc.)

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Author

nelsonpsmith

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