Why This Financial Services Stock Is a Steal at $50

Description

The year's end is fast approaching. It hasn't been a good one for the **S&P/TSX Composite index,** and 2019's not looking any better.

Canadian investors are faced with some tough choices as we enter a new year — decisions that likely will affect your retirement portfolios.

Do you go on the offense looking to emerging markets and other underperforming equities or do you play defence and buy some tried-and-true bank stocks and other safer investments closer to home?

Whatever you do, I believe you can't go wrong owning **Cymbria Corporation** (TSX:CYB), especially if it drops below $55. Here's why.

Asset managers are hot

Vancouver-based PI Financial was recently sold to NG Holdings Canada Ltd.; a holding company focused on acquiring independent Canadian asset managers, for $100 million.

That's a lot for a firm that manages $4.5 billion in assets. Why pay 2.2% of assets under management? Well, for Gary Ng, the head of NG Holdings, it gives his firm immediate scale that would take years to build.

The Canadian banks are especially interested in rolling up large investment managers. In June, **Bank of Nova Scotia** paid $2.6 billion for MD Financial Management, a wealth management firm serving medical professionals. Earlier in the year, Scotiabank also picked up Montreal-based Jarislowsky Fraser for $950 million, significantly bolstering the bank's wealth management business.

It's a quick and easy way to add assets and more important, the fees generated from those assets.

As a result, independent asset managers are considering offers they probably wouldn't have entertained five years ago. On November 12, Calgary-based Mawer Investment Management Ltd., probably one of Canada's most awarded money manager, hired Bank of Nova to explore all its options including a sale of the company.

“Given recent activity in the industry, Mawer has engaged an adviser to obtain more information on the options available to the firm as part of our strategic planning process,” Mawer President Michael Mezei said in an emailed statement to Bloomberg. “No decision has been made to change firm ownership. Our focus remains on delivering excellent long-term investment results for our clients.”

In the case of MD Management, Scotiabank paid about 5.3% of the approximately $49 billion in assets under management. The MD Management situation merited a bigger multiple because of the client, quality, etc., but the norm for asset managers is anywhere from 2%-6%.

Mawer could potentially find itself sitting on a multi-billion-dollar offer.

Cymbria’s key stake

In addition to owning a portfolio of 45 global stocks including **Berkshire Hathaway** (2.58% weighting), it also happens to own 20.7% of EdgePoint Wealth Management Inc., a Toronto-based investment manager with $23.9 billion in assets under management.

EdgePoint Wealth generates investment fees from those assets.

For example, EdgePoint’s Canadian portfolio charges 1.8% annually for retail investors and 0.80% for investors using an advisor. Using 1% for simplicity, EdgePoint Wealth should generate approximately $240 million in revenue in 2019.

Cymbria gets a piece of the profits from those revenues. Since 2008, Cumbria’s received $43.4 million in dividends from EdgePoint Wealth. As it grows, the dividends grow.

However, it is the potential value of EdgePoint Wealth’s excellent portfolio managers that makes Cymbria Corporation such an attractive investment.

Based on 3% of assets under management, EdgePoint Wealth could fetch $720 million or more from one of the big banks. Interestingly, if you go to Cymbria’s website, it puts a valuation of $223 million on its stake in EdgePoint, which is more like 4.7% of AUM.

The point is that regardless of what happens to the markets, EdgePoint Wealth will continue to manage a lot of money for its clients, generating an ongoing stream of revenue for Cymbria.

The bottom line on Cymbria stock

Historically, Cymbria stock’s traded between a 14.2% discount to net asset value (NAV) and a premium of 33.5%. In June 2016, when I first recommended Cymbria, it was trading at a 6.7% premium. Today, it trades at a premium of 22.9%, closer to its historic high.

So, why is it a steal below $50?

The demand for top-flight asset managers has increased over the past two years as evidenced by the two Scotiabank purchases in 2018.

I think anywhere below $55 is a reasonable price, but should it fall into the $40s, you’ll be getting a screaming deal, because the 20.7% interest in EdgePoint Wealth acts as a floor for Cymbria’s share price.

If you're going defensive, Cymbria's a smart way to go.

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3. NYSE:BRKA (Berkshire Hathaway Inc.)
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