



This Canadian Powerhouse Has Been Your Ticket to Riches Since 1988

Description

Utilities have long been a favourite of income investors, and for good reason. Today, many utilities pay dividends with 5% yields or more. Plus, they operate on long term, often multi-decade contracts, meaning they have better cash flow visibility than nearly any other sector.

Power Corporation of Canada ([TSX:POW](#)) has taken this model and expanded on it aggressively. Since 1988, investors have experienced annual returns of nearly 12%. But don't mistake this company for a classic utility.

A diversified powerhouse

Today, Power Corporation is a conglomerate that owns full or partial interests in more than a dozen businesses.

It still benefits greatly from its 100% ownership of Power Energy Corporation, which owns Potentia Renewables, Eagle Creek Renewable Energy, Lumenpulse Group, and Lion Energy. Together, these companies provide Power Corporation with stable and growing cash flows derived from renewable energy assets tied to long-term contracts.

Many utility companies take their earnings and reinvest them in additional energy projects, but this field can be competitive, with limited opportunities to feed billions in capital. Instead, Power Corporation's management opted to look elsewhere. The model is very similar to Warren Buffet's **Berkshire Hathaway**, which uses the predictable cash flows of its insurance segments to invest in external companies.

Over the years, Power Corporation has built an impressive portfolio of leading financial services brands. For example, it owns 100% of Sagard Investment Funds. It also owns roughly 30% of ChinaAMC, giving it direct exposure to the rapidly growing Chinese asset management market.

Finally, it owns a 65.5% interest in **Power Financial** (TSX:PWF), which currently has a market capitalization of \$19.2 billion. That interest alone is worth \$12.6 billion, more than Power Corporation's

entire market capitalization!

A home run for income and growth investors

Over the last 30 years, investors would have experienced a total return of 11.8% annually by investing in Power Corporation stock. The TSX, for comparison, would have returned just 7.4% annually. The difference in returns is huge.

For example, investing \$1,000 in Power Corporation in 1988 would have resulted in a \$28,000 hoard today. By investing in the TSX, investors would have ended up with less than \$9,000. Over the same period, Power Corporation grew its dividend by 8% annually from just \$0.15 per share to \$1.53 per share.

Looking ahead, the company has positioned itself well to adapt to changing conditions.

For its utility businesses, renewables are the clear future. That's why it built up a portfolio almost entirely comprised of renewable assets. This will ensure the company has reliable cash flows for years to come, and will be shielded from regulatory action that can cripple competitors.

To date, the company has spent \$654 million to establish and grow its energy-related businesses. Management anticipates earning a 12% annual return on these assets.

On the finance side, software and automation continue to take market share. That's why Power Corporation invested heavily into FinTech firms like Personal Capital, Portage Ventures, and Wealthsimple. In total, the company manages roughly \$3.7 billion. As these funds transition toward newer methods of asset management, Power Corporation should be prepared to capture that value, however quickly it transitions.

One big reason to buy Power Corporation

Over the long term, Power Corporation has proven an incredible steward of shareholder value. Importantly, it's been able to manage its portfolio well in both bull and bear markets.

For example, in 2005, the company earned roughly \$1 billion. In 2010, less than 12 months after the global credit crisis, Power Corporation as a whole still generated roughly \$1 billion in earnings. Now that's resiliency.

Currently, shares pay a 6.5% dividend. That's a rare entry point for a company with one of the best multi-decade track records in Canada's history.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

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1. TSX:POW (Power Corporation of Canada)

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Date

2025/08/27

Date Created

2019/02/03

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