



## 3 Non-Bank Financials I Really Like

### Description

I just did a quick screen to see how many financial stocks trade on the TSX with a market cap higher than \$100 million. According to Investing.com, there are 65.

Care to guess how many are banks? Less than 10. The rest provides insurance, wealth management, mortgage-related services, etc. Here in Canada, there's not much diversification in banking, but many would argue there doesn't need to be given the quality of the [Big Five](#).

However, for those interested in wandering off the road, there are plenty of interesting non-bank financials worth owning. Here are three I like.

#### Onex Corporation ([TSX:ONEX](#))

Onex is one of Canada's most successful private equity firms. Run by founder Gerry Schwartz, Onex buys companies, fixes and grows them, and then sells the businesses for significant profits or lists them on a public stock exchange.

The name of the game for private equity firms is to exit as quickly and profitably as possible. Onex happens to be very good at this.

Recently, it announced that it was taking **Clarivate Analytics** with its financial partner **Baring Private Equity**, one of its acquisitions public by merging it with **Churchill Capital**, a special purpose acquisition company (SPAC) listed on the NYSE, and created by former **IHS Market** CEO Jerre Stead.

Who is Clarivate?

It's **Thomson Reuters'** former IP and Science business. Onex and Baring acquired it in 2016 for \$3.6 billion. Two years later, this latest transaction values Clarivate at \$4.2 billion, \$600 million more than when Onex bought it.

While a 17% return over two years might not seem like a lot, you have to remember that only a small amount was its own capital — \$420 million. The rest came from limited partners who invested in Onex Partners IV, the company's flagship fund.

When private equity's done well, as it is with Onex, you are benefiting from some of the smartest capital allocators anywhere in the world, but you have to be patient because sometimes asset values turn lower requiring a more extended hold than expected.

### **CI Financial** ([TSX:CIX](#))

If you asked me to name a mid-cap financial stock that got hammered in 2018, CI would have to be it. Down 38% on a total return basis this past year, the provider of mutual funds and ETFs hasn't had an easy time of it the past five years, losing more than 7% on an annualized basis.

However, it wisely continues to plug away knowing that it's got a plethora of products to meet customer needs. And when it doesn't, it goes out and acquires that expertise, as it recently did by buying Vancouver-based robo advisor WealthBar, thereby allowing the company to roll out a digital strategy for Assante Capital Management and the rest of the CI group of companies.

WealthBar's excellent management team will continue to run its business independently from CI. That said, expect CI to speed up the digital innovation in the days, weeks, and months ahead.

I really like this move reinforcing my [belief](#) that CI stock is too cheap to ignore.

### **Alaris Royalty** ([TSX:AD](#))

Last October, I asked whether the Calgary-based alternative lender had turned a corner, recovering some of the ground it lost over the previous year from loans that had gone bad. I [concluded](#) that it hadn't completely turned the corner, but it was pretty darn close. Furthermore, I suggested that under \$20, it was a buy.

At the time it was trading where it is today.

Since then, the company has announced solid Q3 2018 earnings and contributed US\$46 million to GWM Holdings, a U.S. company that helps companies manage their digital media advertising. In this particular situation, Alaris will receive annual distributions of US\$5.6 million, a pre-tax yield of approximately 13%.

As GWM grows, the distributions will increase by as much as 8% a year. It has also negotiated a predetermined exit multiple so that as GWM grows cash flow, the value of Alaris' preferred shares increases.

If you thought Onex was patient capital, Alaris takes it to another level.

Alaris is not a stock for your kid's education fund, but if you can put up with the unknown, I could see its share price revisiting \$30 in the next 24 months. Its management team is too darn good.

### **CATEGORY**

1. Investing

## **TICKERS GLOBAL**

1. NASDAQ:TRI (Thomson Reuters)
2. TSX:AD.UN (Alaris Equity Partners Income Trust)
3. TSX:CIX (CI Financial)
4. TSX:ONEX (Onex Corporation)
5. TSX:TRI (Thomson Reuters)

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