



Dividend Investors: 3 Reasons I Just Added This 5.6% Yielder to My Portfolio

Description

I, like many investors, look to add high-quality dividend stocks to my portfolio, all while paying a fair price for these assets. Many of the stocks I own are dividend-growth names, but I'm not exclusively a dividend-growth investor. I'll happily own a great value stock with a stagnant payout, for example.

I recently made an addition to my portfolio. Here's why I bought **Great-West Lifeco** ([TSX:GWO](#)) shares.

Attractively valued

Great-West Lifeco has been quietly posting some pretty solid results. And the market really hasn't noticed, as shares are down nearly 14% over the last year.

The company's Q4 results, which it just released last week, are exactly what I'm talking about. Net earnings came in at \$710 million, or \$0.72 per share. That compares to last year's results of \$0.40 per share for the same quarter. The company saw strength from its Canadian, U.S., and European operations.

Results were similarly impressive when we look at 2018 numbers as a whole. Net earnings per share came in at \$3, well above last year's results of \$2.17. The company also posted a nice gain on adjusted earnings, which came in at \$3.05 per share versus \$2.68 per share last year.

Great-West Lifeco shares trade hands at \$29.29 as I write this. This puts shares comfortably under 10 times earnings, which is quite cheap. It's also priced pretty attractively on a price-to-book-value perspective, trading at just 1.3 times book value.

A potential catalyst

Great-West Life recently disclosed it has entered a deal to sell its U.S. life insurance and annuity business. Management is actively looking for ways to put this capital to work.

President and CEO Paul Mahon told investors “we enter 2019 with significant excess capital, which will be further bolstered by \$1.6 billion from the sale of our U.S. life and annuity business. This positions us to actively consider acquisition opportunities to drive growth and long-term value. In addition, we are considering other capital-management activities to mitigate the earnings impact from the sale of our U.S. business.”

There are a number of things Great-West Lifeco could do to create shareholder value. It could do a big share buyback or issue a special dividend. The company has never been big on either of those strategies, so that seems unlikely.

The obvious path is making an acquisition, either here in Canada or abroad. Great-West Lifeco is already a well-diversified financial services giant, offering everything from life insurance to retirement programs to investing advice for individuals. Perhaps the next step is to buy some specialty finance companies, like its competitors have done. Or it could buy a small bank and get into the mortgage business.

Another potential catalyst is the possibility of higher interest rates, which was a big story in the beginning of 2018 before fading as the year went on. Higher rates would be a big win for Great-West Lifeco, which invests heavily in fixed-income instruments.

An outstanding dividend

Great-West has the highest dividend yield of its peers in the large-cap life insurance sector. The current payout is 5.6%.

After the stellar fourth-quarter results, the company raised the dividend for the fifth year in a row. The payout is now \$0.413 per share on a quarterly basis — a 6% increase versus last year.

Investors don't have to worry about the distribution, either. The dividend-payout ratio is approximately 55% of trailing earnings. Analysts expect the company to increase earnings to \$3.10 next year, which puts the payout ratio closer to 50%.

The bottom line

Investing doesn't have to be complicated. Great-West Lifeco is trading at less than 10 times trailing earnings with a nice dividend — a payout that is growing nicely. The company has grown earnings and book value at a steady clip over the years. And it's flush with cash, which should serve as a nice potential catalyst.

I hope to hold Great-West Lifeco shares for a couple of decades or more. I think it could be a wonderful creator of wealth.

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