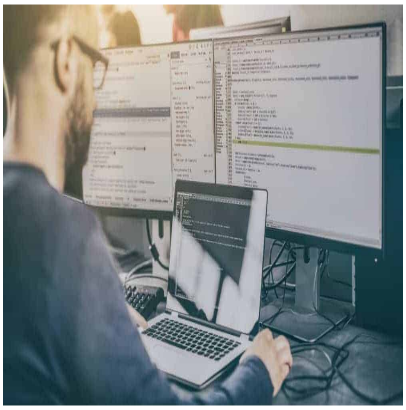

Shares in This Canadian Investment Manager Are Absurdly Cheap Right Now

Description

Shares in **CI Financial** (TSX:CIX) are up more than 9% already through the first two weeks of February. I'll attempt to explain why I believe that even following the latest run up, the stock still offers very, very good value at current levels.

On February 8, CI reported its results for the fourth quarter and 2018 fiscal year end.

Diluted earnings per share were $0.57, an 11.7% improvement over $0.51 from a year ago; however, adjusted earnings per share (which exclude one-time or nonrecurring items) clocked in at $0.57, which was actually down 9.6% from the fourth quarter a year ago.

Because financial performance can sometimes be skewed by one-time items that make it difficult to compare different reporting periods, the adjusted earnings per share figure is the more relevant figure in our discussion.

In this case, CI's earnings were lower in 2018 than the year prior, as the company saw the value of its total assets under management (AUM) fall from $143 billion as of December 31, 2017, to $124 billion as of December 31, 2018.

Because investment management firms make the bulk of their money by charging their clients a fee that's equal to a percentage of assets under management, when their AUM declines, they generally make less money.

This is exactly what happened in the case of CI Financial this year.

Lower AUM in 2018 led to $474.2 million in management fees being charged during the fourth quarter compared to the $532.1 million it had charged its clients a year ago.

And while CI Financial managed to trim its operating overhead somewhat in 2018, it wasn't enough to offset the declines in revenues it saw in 2018; the result was the aforementioned 9.6% drop in its adjusted earnings per share.

Despite reporting disappointing 2018 results, CI Financial stock is too cheap right now

First, it's worth providing a bit of context as to the cause for the drop off in CI Financial's AUM and fees charged between the fourth quarter of last year and the one ended December 31, 2018.

Last year, CI Financial closed its acquisition of Sentry Investments for $780 million; the deal brought over Sentry's $19.1 billion book of assets. That deal closed on October 2, 2017, which means that Q4 of 2017 was the first year that CI Financial had Sentry's assets on its books.

In other words, Q4 2017 was effectively the "high water mark" for CI Financial's AUM.

What's likely happened over the ensuing 12 months is that some of Sentry's old clients simply decided to switch advisors.

After all, the financial world is a relationship-driven one, and so it wouldn't be surprising at all if some of Sentry's existing clients made the decision to look elsewhere rather than having custody of their assets transferred over to a third party (in this case, CI Financial) after the deal closed.

Mind you, this isn't an attack on the merit or integrity of CI Financial, its advisors, or its management; it just happens to be the subjective nature of client-advisor relationships.

As the value of CI Financial's AUM has been sliding, its share price has slid as well.

The value of CI Financial's share price fell from a high of $28.73 to under $17 per share this past December. Entering this week's trading (at $19.33), the value of CI Financial stock represents a forward earnings multiple of just slightly above eight times — well below the levels the stock has historically traded at.

Cash is king

In my opinion, the market has unfairly discounted the recent decline in CI Financial's AUM and management fees without allowing for the prospect that things could very well stabilize, if not improve for the firm at some point in the very near future.

Meanwhile, CI Financial's board of directors announced last year its plans to return as much as $1 billion to shareholders in the form of stock buybacks over the next 12-18 months.

That's a prospect, which, in light of the stock's current 3.72% annual dividend yield, makes this a very interesting opportunity for those investors who are focused on the bottom line.

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