A 9% Dividend Stock That Deserves Your Attention

Description

Gluskin Sheff + Associates (TSX:GS), a little-known wealth management company, has been one of the most lucrative dividend stocks I've come across. I took a closer look at the company's history and underlying fundamentals back in December. This time, I want to analyze the dividend and valuation to figure out if I missed something.

A quick recap: Gluskin Sheff is an independent wealth management company that provides portfolio management and investment consulting to high-net worth individuals, family offices, and institutional investors.

Since the company was launched in 1984, it has expanded assets under management (AUM) from $26 million to over $9 billion at the end of 2018's financial year. That's a compounded annual rate of 18.8% over 35 years — a stellar performance for any wealth management company.

Since I wrote about the company, the stock is up nearly 12%, briefly touching $11.5 earlier this month. With a $0.25 quarterly dividend, the yield works out to roughly 9%. From the time the company went public in 2006 to last week's quarterly dividend, the company has paid $18.46 per share to investors collectively.

However, that has barely dented the total return of the stock, which is down 23% over the past year, 46% over the past three years, and 64% over the past five years. In other words, Gluskin Sheff wasn't a great investment, despite the hefty dividends.

If you consider Gluskin Sheff's business, you'll expect a close correlation of both the top and bottom lines with the fate of global capital markets. After all, AUM grows organically when asset prices are up, and the company derives its earnings from a combination of performance fees and management fees, like any other wealth management firm.

However, the revenue and net income is barely up, despite the tremendous bull market across the world and especially in North America since the 2008 financial crisis. Annual gross profit has declined from $93 million in 2015 to $84 million in 2018, while net income has declined from $52.3 million to $32.6 million over the same period.

Even in the most recent quarter, the total AUM declined 7.9% from September 30, 2018, due to "negative investment performance … and net withdrawals."

There can only be three reasons for the company's declining profits and revenue: client withdrawals, lower fees, and bad performance. Only performance is within the management's control. Meanwhile, fees have been declining across the sector with the rise of passive investing and growing competition. Meanwhile, withdrawals are based on investor sentiment and perceived performance.

The performance will have a direct impact on the dividends. Gluskin Sheff's annual earnings and net cash per share are both below the rate of annual dividend. This doesn't bode well for investors.

Bottom line

Gluskin Sheff may seem like an attractive dividend stock based on total yield, but investors should be aware of the underlying fundamentals. Its fate is hard to predict, and the dividend is just as volatile.

Low cash and unstable earnings make this a less-than-ideal dividend stock. However, if you're optimistic about the North American capital markets and confident in Gluskin Sheff's ability to attract more clients and outperform major indices, this could be a good time to buy.

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