# Is This 5% Dividend at Risk From a Messy Brexit?

## Description

**Great-West Lifeco** (TSX:GWO) is one of Canada's finest financial companies. The Winnipeg-based firm has interests in life insurance, health insurance, retirement consulting, investment services, asset management and reinsurance operations spread across Canada, the United States and Europe.

However, operations in Europe are mostly concentrated in two countries that are now embroiled in a political mess of epic proportions. Britain's decision to leave the European Union has made the political situation in the United Kingdom and the Republic of Ireland complicated.



Great-West's subsidiary, Irish Life, is Ireland's leading life assurance, pensions and investment management business. Meanwhile, another subsidiary, Canada Life, provides insurance and investment-related services in the United Kingdom and the Isle of Man.

Besides Ireland and the U.K., Great-West also provides services in Germany, a country that is not exempt from the Brexit fallout. Experts believe that a hard Brexit could have negative economic consequences for both sides, which means that this event will have an impact on all European investment portfolios and will eventually be reflected in Great-West's annual report.

In fact, the company generated more net earnings in Europe ($1.3 billion) than in Canada ($1.27 billion) last year. Not only will a messy Brexit dampen the investment climate and shock capital markets, but the currency could plunge as well. Both the Euro and British pound may lose value if things go awry. For investors, the economic consequences of this upcoming political event are hard to ignore.

However, it's worth taking a step back to put this potential risk in perspective. At the end of 2018, Great-West had $1.4 trillion in assets under management. For context, that's nearly the size of Australia's economy.

Size isn't the only strength of Great-West's business. Insurance is a relatively stable and lucrative sector, which means short-term political upheavals won't have long-term effects on the company's bottom-line.

Last year, premiums and deposits from customers were at an all-time high of $139.3 billion. The company's return-on-equity is nearly 14.3%, while the dividends have compounded at an annual rate of 7% over the past 15 years.

The company already has one of the strongest balance sheets in the industry. There's more than $105 billion in cash and cash equivalents on the book, ready to deploy for acquisitions and investments in the coming years. Total long-term debt is a mere 25% of equity, and 6% of the cash hoard.

Net earnings across North America (Canada and the U.S. combined) were 27% greater than annual net earnings in Europe, which means that the company is more diversified than it appears.

In fact, the management clearly states that Brexit will have a limited impact on their operations. According to the company's latest annual report – " The uncertainty surrounding the impact that Brexit could have on Ireland is a key risk in the medium term… Contingency plans are in place, but the impacts on the business are expected to be small as the Company's businesses are principally domestic to the countries where they are based."

So, is this attractive dividend from one of the world's largest financial companies at risk from Britain's tumultuous exit from the European Union? The short answer is no, not at all. Income-seeking long-term investors should appreciate the high dividend yield and low valuation of this rock-solid financial juggernaut.



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vraisinghani