



Is Power Financial (TSX:PWF) a Good Buy at the Current Price?

Description

Shares of **Power Financial Corp.** (TSX:PWF) have returned 16% year to date. However, the stock is down 16.8% in the last five years. Here we look at the company's business segments, growth, and valuation metrics to see if the stock is a good buy at the current trading price.

Power Financial is valued at \$19.76 billion. It is a Canada-based diversified management and holding company. The company generates 39.6% of sales from Europe, 37.8% from Canada, and 15.4% from the U.S.

PWF offers a variety of financial services across insurance, investment management, asset management, and reinsurance verticals.

Controlling interests in IGM, Pargesa, and others

Power Financial Corp. has [a 61.5% ownership in IGM Financial](#) worth \$5.36 billion, based on the latter's market cap of \$8.73 billion. It also owns a stake in **Great-West Lifeco** valued at \$21 billion, and it controls 27.5% of European financial heavyweight **Pargesa**.

IGM Financial and Great-West Lifeco have around [\\$860 billion of assets under management](#) (AUM). PWF has a diversified revenue base with these controlling stakes in billion-dollar companies and it is now looking to gain traction in the high-growth fin-tech space as well.

In early 2019, PWF increased its stake in Canada's leading fin-tech start-up, Wealthsimple. In the first quarter of 2019, Power Financial invested \$12 million while IGM invested \$18 million in Wealthsimple. PWF now has a total investment of \$238 million, or 88.6%, in Wealthsimple.

PWF remains optimistic about Wealthsimple, which has a customer base of over 100,000 and \$4.3 billion in AUM. Another fin-tech investment for PWF is Personal Capital, which provides investment services to mass affluent and high-net-worth individuals.

Revenue declined by 1.6% in 2018

Now that we have seen how PWF operates via controlling stakes across several companies, let us look at its most important financial metrics – revenue and earnings growth.

Power Financial Services reported sales of \$49.1 billion in 2016. Sales rose 1.5% to \$49.87 billion in 2017 and then fell 1.6% to \$49.07 billion in 2018. This tepid revenue growth and a decline in 2018 led to PWF's stock depreciation over the last few years.

Now the company is set to return to sales growth in 2019. Analysts expect PWF's sales to rise by 5% to \$51.56 billion in 2019 and by 7.3% to \$55.30 billion in 2020. Revenue growth is, in fact, accelerating for Power Financial Corp.

This growth in sales will also translate to a robust improvement in earnings. Analysts expect PWF's earnings to grow by 7.9% in 2019 and at an annual rate of 5.2% over the next five years. Comparatively, its earnings grew at an annual rate of just 0.7% in the last five years.

PWF stock is trading at an attractive forward price-to-earnings multiple of 8.4, especially after accounting for the company's forward dividend yield, which stands at a solid 6.1%.

The verdict

PWF stock is trading at an attractive valuation. Its controlling stake provides a cushion to investors in terms of revenue diversification across multiple countries. Its high dividend yield is difficult to miss out on.

PWF has paid over \$10 billion to shareholders in dividends over the last decade and has increased its dividend per share from \$1.4 in 2014 to \$1.82 in 2019.

Analysts tracking Power Financial have a 12-month average target price of \$32.29 which indicates the stock is trading at a discount of 8.5%.

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