This 6% Dividend Stock Is Well Positioned for Rising Interest Rates

Description

The Bank of Canada is rapidly raising interest rates. As inflation surges to the highest level since 1983, the central bank must raise the cost of borrowing money to slow the economy down. This is, unsurprisingly, bad for most stocks. However, some stocks thrive in this environment.

Here's a closer look at a stable dividend stock that could be well positioned for the rate hikes that lay ahead.

Power Corp

Power Corporation of Canada (TSX:POW) is a financial holding company with stakes in major insurance and wealth management firms. You're probably aware of some of their subsidiaries such as **Great-West Lifeco** and Wealthsimple.

Power Corp. has felt the full brunt of the broader stock market correction this year. Economic outlook uncertainty has taken a toll. Moreover, with inflation in Canada at all-time highs above 7%, the company's core business around insurance products is under immense pressure more than ever.

With the overall stock market under pressure, Power Corporation has underperformed. As a result, the stock is down by about 21%. In contrast, the TSX is only down by about 13%. Despite the underperformance, the company remains a solid pick backed by a solid core business that revolves around offering financial services across North America, Europe, and Asia.

Robust outlook

Power Corporation boasts a 61.6% stake in IGM Financial and 66.6% in the Insurance firm **Great-West Lifeco**. Last year, its revenue jumped 7.7% to $69.6 billion year after a boost from a jump in total net premiums and fee income. Earnings were also up by about 59% to highs of $4.77 a share.

A move by the Bank of Canada to hike interest rates to try and tame runaway inflation could be a catalyst to spark further revenue and earnings growth. Higher rates allow the company to expand margins on lending activities and secure a better yield on its financial assets. This explains why Power Corporation is still a safe dividend play, despite the recent deep pullback.

The company currently pays a solid 6% dividend yield, one of the highest for anyone looking to generate some passive income. Over the past five years, dividends have expanded at an average rate of 9% annually. The company could see similar growth in the years ahead.

In addition, the stock is trading at a discount after the 21% pullback going by the price-to-earnings multiple of eight. That means much of the bad news about the economy has already been baked into the stock price.

Bottom line

Rising interest rates are dangerous for companies with too much debt and narrow margins. However, insurance and financial companies like Power Corp could see some upside from rate hikes. The stock is relatively cheap, and the dividend yield is high enough to justify a bet right now. Keep an eye on this stock.

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