

## Recommendation

Buy

## Target Price

\$48.00

## Risk

Low

## Average Daily Volume

20da:617,800/150da:615,200

## Quick Facts

Recent Price \$40.85  
 Symbol PWF-TSX  
 Shares O/S 705 million  
 Market Cap. \$27.1 billion  
 52 Wk. Range \$30.20-\$41.03  
 Year End December 31

	EPS	Multiple
2006a	\$2.44	16.7x
2007e	\$2.80	14.6x
2008e	\$3.15	13.0x
NAV	\$44.75	-8.7%

	Rate	Yield
Dividend	\$1.16	2.8%

# Power Financial Corp.



Data Source: BigCharts.com

*Power Financial Corp. is a holding and management company. Its operations provide a range of individual and corporate financial and fiduciary services in North America and Europe. Subsidiaries include Great-West Lifeco, IGM Financial, London Insurance Group, Canada Life Financial, Investors Group, and Mackenzie Financial, and major affiliate Pargesa Holding SA of Switzerland.*

## CONCLUSION: BUY - 12 MONTH TARGET INCREASED TO \$48.00

Power Financial reported Q1/07 operating EPS (fd) of \$0.65 up 18% Y/Y and \$0.01 better than our expectations. The earnings were driven by good earnings from GWO (up 16% Y/Y) and IGM (up 14% Y/Y) but as well better earnings from Pargesa (up 80% Y/Y). Dividend was increased by 8.4% to \$1.16 from \$1.07. ROE decreased to 17.3% down from 19.0% last quarter.

We are increasing our 2007 EPS estimate for PWF to \$2.80 from \$2.78 and have also increased our 2008 EPS estimate to \$3.15 from \$3.10. Our 12 month share price target for PWF has been increased to \$48.00 from \$46.00. We continue to rate the shares as a BUY and believe PWF continues to be one of the best positioned financial service companies in Canada particularly in the wealth management sector.

### PWF Trades at an 8.7% Discount To Net Asset Value Of \$44.75 Per Share

PWF had a book value of \$16.05 per share as at March 31, 2007, however this is not representative of current market value of its subsidiaries. Actual Net Asset Value (NAV) for PWF is \$44.75 per share and more appropriately reflects the current public market value of all investments. PWF at present trades a discount of 8.7% to this current NAV. Our 12-month projected NAV, based on our 12 month share price target of \$61.00 for IGM and \$40.50 target for GWO is \$51.25 per PWF share.

### Valuation - PWF's Unique Positioning Should Support A Share Price Closer To NAV

We expect PWF's share price to trade closer to its NAV and therefore we are increasing our 12 month share price target of to \$48.00 from \$46.00 which implies a discount to our 12 month target NAV of \$51.25 per share of closer to 6%. If financial service sector consolidation becomes a possibility then we would expect the discount to disappear and see PWF's share price trade closer to its targeted NAV and possibly support a premium. Total one year return of 20.4% is expected.

**PWF Quarterly Highlights**

- PWF reported Q1/07 operating earnings of \$482 million vs \$408 million in Q1/06, a Y/Y gain of 18%.
- NAV (Net Asset Value) currently stands at \$44.75 per share well above the Company's stated book value of \$16.05 per share as at March 31, 2007.

**Great-West Lifeco - 12 Month Target Maintained At \$40.50**

- Great-West Lifeco (GWO) reported Q1/07 EPS (fd) of \$0.58 or almost \$0.01 ahead of our expectations, up 16% Y/Y. Canadian and European earnings were particularly strong with the U.S. a little stronger. The recent add-on acquisitions in Europe and the U.S. are now beginning to show positive results and have further potential as payout annuity assets are reinvested at higher rates. ROE was stable at 20.4%.
- In Canada, Q1/07 net income was \$225 million up marginally from \$223 million last quarter but up 10% Y/Y. Results were helped by good individual life sales up 12% Y/Y, strong seg fund sales up 16% Y/Y, good mortality experience and lower operating expenses.
- U.S. division reported net income of \$142 million up from \$128 million in Q4/06 and up 6% Y/Y. Sales of 401k plans were up 19% Y/Y due to the recent acquisitions. Integration expenses were \$11 million (\$6 million for MetLife and \$5 million for US Bancorp). These expenses will gradually disappear over the next several quarters. Healthcare net income was better at \$53 million up 6% Y/Y however sales were 25% lower. Some improvement is beginning in Healthcare as membership seems to be stabilizing. Total membership was flat sequentially but up 8% Y/Y.
- Europe reported a very strong Q1/07 net income of \$147 million up 32% Y/Y or 31% Y/Y. Sales in the UK increased 28% Y/Y and sales in Germany & Ireland increased 56% Y/Y due to strong pension product sales. Europe benefited from strong Reinsurance sales. We expect over \$3.0 billion of the payout annuity block of business purchased from Equitable Life to gradually be reinvested in higher yielding securities and increase the overall profitability of the business.
- We are maintaining our 2007 and 2008 EPS estimates for GWO of \$2.46 and 2.77 respectively. The estimates include the recently announced Putnam deal expected to close in Q2/07.
- The recent strength of the \$CDN relative to the \$US may no longer be a positive to EPS in 2007 but rather just neutral.
- We expect a trailing dividend payout ratio of 47% to 50% which would suggest further dividend increases of 12% to 17% over the next 12 months to the \$1.15 to \$1.20 level.
- We are maintaining our 12 month target share price for GWO at \$40.50 based on what we believe is a solid, low risk, global growth opportunity using an "add-on" acquisition strategy focused on the wealth management sector. In addition to the recently announced Putnam transaction, GWO over the last 12 months has made four add-on acquisitions. On a cumulative basis these transactions are expected to be accretive to 2007 and 2008 EPS by \$0.06 to \$0.07 per share with the Putnam deal adding a further \$0.06 to 2008 EPS. More significant is our expectation that GWO may make several more of these add-on acquisitions over the next 12 months and further enhance EPS in 2008.

**IGM Financial - 12 Month Target Increased To \$61.00**

- IGM reported solid Q1/07 results which were slightly better than expectations as EBITDA per share increased to \$1.56 up from \$1.48 last quarter and up from \$1.39 in Q1/06 for a Y/Y gain of 12%. EPS was reported at \$0.79, a 14% Y/Y gain. The Y/Y increase in EBITDA was largely due to an increase in average mutual fund AUM of 15% Y/Y (strong net sales at Investors but weaker sales at Mackenzie) and positive overall operating leverage. EBITDA margin increased to 57.9% in Q1/07 up from 57.5% last year as expenses non-commission increased by a modest 5.2% Y/Y.
- Total mutual fund AUM as at the end of March increased to \$123.4 billion up from \$119.4 billion as at the end of December and up 15.2% Y/Y. As at April 30, 2007 total AUM increased to \$124.4 billion with total sales in April of \$0.9 billion and net sales of \$64.4 million.
- IG had gross long term fund sales of \$1.98 billion in Q1/07 with net sales of \$855 million, a very strong quarter. All categories of net sales increased by over \$1.0 billion. Total mutual fund AUM as at March 31, 2007 were \$60.2 billion up 12% Y/Y.
- Mackenzie experienced gross long term fund sales of \$2.0 billion in Q1/07 with net sales of \$167 million. All categories including institutional had net sales of \$0.6 billion. Total AUM as at March 2007 was \$63.7 billion up 19% Y/Y which included \$3.3 billion from Cundill.
- Counsel Fund Management had net sales of \$75 million in Q1/07, a very strong quarter overall and one of the best since acquired 2 years ago. AUM increased by 15% Y/Y to \$2.3 billion.
- Our 2007 EBITDA per share estimate is being maintained at \$6.35 and our EPS is maintained at \$3.25. However for 2008, we have increased our EBITDA per share estimate to \$6.90 from \$6.85 and our 2008 EPS estimate moves up to \$3.62 from \$3.60.
- We expect a dividend payout ratio in the 50% to 60% range (but closer to 60%) of EPS which would imply a dividend in 12 months time of about \$1.95 to \$2.00 per share or an increase of 14% to 16%.
- IGM is considered the premier asset management company and well positioned in its distribution channels with Investors Group (captive sales force), Mackenzie (independent) and IPC (Financial Planning + Counsel Fund Management). We believe IGM's superior positioning and strong profit margins will enable it to successfully compete in what is becoming an increasingly competitive environment for mutual fund shelf space, increased competition from the major banks and a period of tighter profit margins.

**Parjointco-Pargesa**

- Pargesa (through Parjointco, the holding company owning the interest in Pargesa) contributed \$18 million to net income in Q1/07 up 80% from \$10 million reported in Q1/06 but down from \$30 million in Q4/06. Pargesa sold its interest in Bertelsmann at the end of Q3/06 and the cash proceeds are expected to generate lower returns going forward.

**Update On Proposed Putnam Transaction**

- GWO announced in February that it had reached an agreement with Marsh & McLennan Companies Inc. whereby GWO will acquire the asset management business of Putnam Investments Trust. The purchase price is US\$3.9 billion payable in cash.

- GWO management indicated that it still expects closing in the second quarter.
- Management gave no further update on its financing options with respect to the deal (at the time of the announcement management indicated that there would likely be a \$1.2 billion common equity issue by GWO). If there is no common equity issue we could see further accretion to our 2008 EPS estimate of up to \$0.05 per share in addition to \$0.06 per share accretion expected from the acquisition itself.

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