



Great-West Lifeco Inc. (GWLIF)

Updated February 15th, 2023 by Quinn Mohammed

Key Metrics

Current Price:	\$27	5 Year CAGR Estimate:	10.9%	Market Cap:	\$25 B
Fair Value Price:	\$30	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	03/02/2023
% Fair Value:	89%	5 Year Valuation Multiple Estimate:	2.3%	Dividend Payment Date:	03/31/2023
Dividend Yield:	5.8%	5 Year Price Target:	\$37	Years Of Dividend Growth:	7
Dividend Risk Score:	C	Retirement Suitability Score:	A	Rating:	Buy

Overview & Current Events

Great-West Life is an international financial services holdings company with interests in life insurance, health insurance, investment and retirement services, asset management and reinsurance businesses. They trade on the TSX under the ticker GWO and in the US OTC under GWLIF. Great West was founded in 1891 and is a member of the Power Financial Group. It has a market cap of \$25 billion USD and operations in North America, Europe, and Asia.

On April 1st, 2022, Great-West's Empower subsidiary completed the acquisition of the full-service retirement services business of Prudential Financial, Inc. Empower, as of September 30th, 2022, has 17.5 million retirement plan participants in the U.S, compared to 13.0 million on December 31st, 2021.

Great-West Lifeco announced a 6% dividend increase on February 8th, 2023.

On February 8th, 2023, Great-West Lifeco announced fourth quarter and full year results for 2022. Fourth quarter reported net EPS was up to C\$1.10 from \$0.82 in the prior year's quarter, primarily due to higher new business growth in the Capital and Risk Solutions segment.

Consolidated assets under administration (AUA) grew to C\$2.5 trillion at the end of Q4 2022, a 9% increase from December 31st, 2021. Return on equity for the quarter was 13.6%, somewhat under their target range of 14% to 15%. The company reported a Life Insurance Capital Adequacy Test (LICAT) ratio of 120%, well above the Company's target range, and well above the 70% - 100% set by regulators. The LICAT is like the banks Common Equity Tier (CET1) ratio but specific to Canadian Insurance companies.

The company achieved annualized run rate cost synergies of US\$160 million pre-tax at end of 2022 in relation to the acquisition of MassMutual's retirement services business, which was in line with their original expectations. They also achieved US\$43 million pre-tax of annualized run rate cost synergies related to the acquisition of Prudential's retirement services.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$2.23	\$2.31	\$2.17	\$2.01	\$1.67	\$2.31	\$1.88	\$2.37	\$2.66	\$2.55	\$2.74	\$3.33
DPS	\$1.18	\$1.11	\$1.01	\$1.04	\$1.13	\$1.20	\$1.24	\$1.34	\$1.43	\$1.45	\$1.55	\$1.80
Shares¹	999.0	974.0	996.0	990.0	990.0	988.0	945.0	928.0	930.7	932.3	932.0	915.0

Great-West has been growing their business primarily through acquisitions, such as the tremendous acquisition of MassMutual and Prudent Financial, Inc.'s retirement business. This, and many other acquisitions in the last few years have added significant assets and clients to the company and should grow consolidated earnings. Increasing rates also would have a positive impact on revenue and drive margin expansion as lower risk tolerance investors seek the security of fixed rate investments. Today, interest rates are on the rise in the US and Canada, which will allow Great-West to invest its float at higher rates, thus producing more revenue. The company is targeting growth through acquisition and product expansion in Europe, and investing for significant growth and consolidation opportunities in the U.S. The

¹ In millions

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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continued strong capital position also allows for growth through share repurchases as can be seen in the 2019 and 2020 share count reductions. Unfortunately, due to OSFI, they were not able to purchase their shares at their 2020 low prices. We expect earnings growth will support 3.0% annual growth in the dividend. We forecast the company will be able to grow earnings by around 4.0% per annum, and that if they continue to deploy their available capital, that growth could likely come in stronger.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	14.4	12.3	12	12.4	14	13.3	11.0	10.5	10.8	9.8	9.8	11.0
Avg. Yld.	3.3%	3.0%	3.4%	4.0%	3.9%	4.7%	5.2%	6.5%	4.8%	5.7%	5.8%	4.9%

Great-West is trading below its average levels over the past decade. While shares trade at 9.8 times earnings today, we believe that they are worth closer to the 10-year and 5-year averages of 12.1 and 11.1, respectively. If GWLIF were to trade at 11.0 times earnings in 2028, it would result in a valuation tailwind. The 5.8% yield is higher than it has been on average in the past decade.

Safety, Quality, Competitive Advantage, & Recession Resiliency

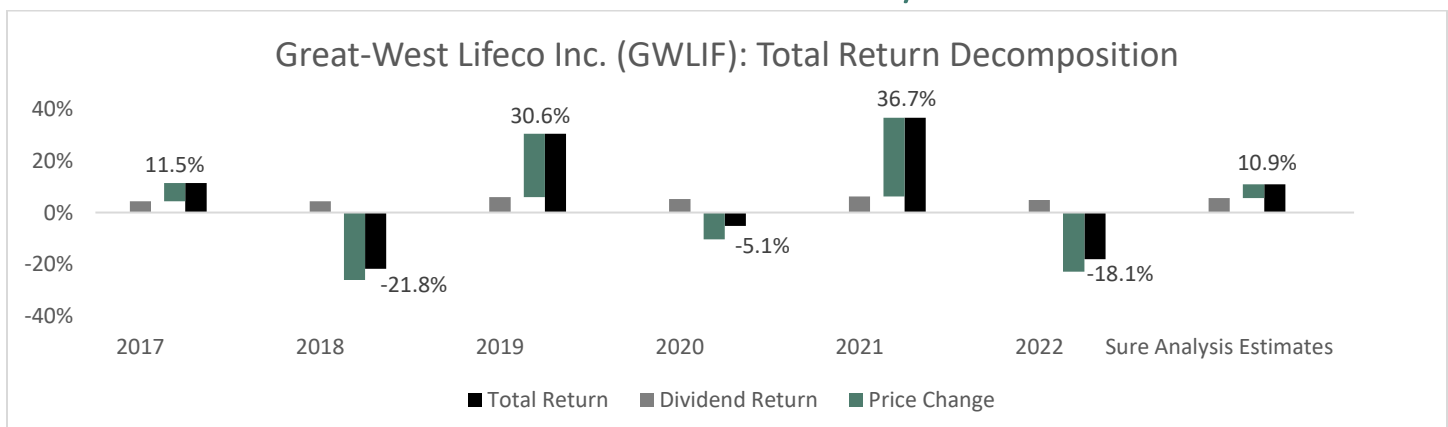
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	53%	48%	47%	52%	68%	52%	66%	57%	54%	57%	57%	54%

The company's competitive advantage is their conservative nature. In a period of economic uncertainty, where talk of recession looms, their strong capital position and solid and growing dividend will appeal to many investors seeking safety. During the Great Recession they held their dividend firm, protecting investors, and we feel they are well positioned should another recession occur. They may even be banking on that as a means of growing the business should a quality acquisition opportunity become available. With a stable debt level, manageable payout ratio and a strong balance sheet the company's stock makes a good choice for the risk averse investor.

Final Thoughts & Recommendation

We forecast annualized total returns of 10.9% annually for GWLIF, driven by 4.0% earnings growth, a strong 5.8% dividend yield, and the potential for a valuation tailwind. The overall risk for the company is low based on their strong capital position and balance sheet strength. Given GWLIF trades 11% below fair value and annualized total returns of 10.9% are forecasted, we rate GWLIF a buy at these levels. This stock is a good fit for conservative investors concerned about a pullback in the markets and interested in the dividend.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	26446	39181	33820	46381	47117	44032	33678	45228	51404	34361
SG&A Exp.	3111	3673	4386	4716	4619	4937	3779	3933	4889	5307
Net Profit	2408	2668	2888	2764	2278	3094	1878	2296	2602	2574
Net Margin	9.1%	6.8%	8.5%	6.0%	4.8%	7.0%	5.6%	5.1%	5.1%	7.5%
Free Cash Flow	5026	5443	5123	6254	6757	6494	4604	7172	8274	5416
Income Tax	463	628	460	396	422	387	281	-61	242	180

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets (\$B)	325.88	356.71	399.94	399.73	419.84	427.69	345.39	470.91	494.49	516.84
Cash & Equivalents	2791	2498	2813	3259	3551	4168	3543	6231	4765	4724
Acc. Receivable	3068	3056	3553	4311	4647	5202	4502	4785	4993	5143
Goodwill & Int.	9268	9480	9949	9949	9911	10524	7940	11286	11447	12388
Total Liab. (\$B)	306.05	334.81	374.68	374.73	394.30	400.29	325.83	449.73	470.58	493.03
Accounts Payable	1583	1480	1755	2049	2684	3262	2566	2116	2378	2353
Long-Term Debt	6120	5802	5874	6427	6052	6757	4878	7950	7224	7945
Total Equity	15154	16740	19925	19488	19887	21809	15282	16715	19212	19371
LTD/E Ratio	0.35	0.30	0.26	0.29	0.27	0.28	0.28	0.42	0.34	0.37

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	0.8%	0.8%	0.8%	0.7%	0.6%	0.7%	0.6%	0.6%	0.5%	0.5%
Return on Equity	17.7%	16.7%	15.8%	14.0%	11.6%	14.8%	12.0%	14.3%	14.5%	13.3%
ROIC	10.1%	9.9%	9.8%	8.8%	7.2%	9.4%	7.6%	8.6%	8.6%	8.2%
Shares Out.	999	974	996	990	990	989	927	928	930.7	932.3
Revenue/Share	26.67	39.19	33.89	46.77	47.56	44.52	35.58	48.75	55.22	36.86
FCF/Share	5.07	5.44	5.13	6.31	6.82	6.57	4.86	7.73	8.89	5.81

Note: All figures in millions of Canadian Dollars unless per share or indicated otherwise.

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