The 1 Financial Stock You Should Own

Description

It's amazing what a difference five years can make, and no company knows that better than **Manulife Financial** (TSX: MFC)(NYSE: MFC). Canada's largest life insurer was struggling to stay afloat during the financial crisis, but now is as strong as ever. The company is also very ambitious in its growth plans; if successful, then its past troubles will seem like an even more distant memory.

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So why does Manulife belong in your portfolio?

A look back

First, it is worth looking back at what happened to the company during the crisis. To make a long story short, Manulife sold products that exposed it too much to the stock market. When the stock market turned sour, Manulife ran short of capital. Although the company did an excellent job saving itself, it continued to struggle in the next couple of years due to low interest rates.

Only in the past two years has Manulife managed to turn the corner, but it has rewarded shareholders patient enough to wait. In 2012 the shares returned 29%, and last year was even better, with the shares returning 58%.

A look forward

Manulife's recent results have been impressive. Net income in 2013 was up 73% year over year, driven mainly by growth in wealth management and by Asia. Looking ahead, Manulife hopes to achieve $4 billion in net income by 2016, up from $3.1 billion last year. The company hopes to achieve this through growth in both wealth management and insurance, as well as by cutting costs.

Manulife is also on much sounder footing, with a Minimum Continuing Capital and Surplus Requirements ratio of 248%, higher than its large competitors. This compares favourably to the 230% MCCSR ratio at **Great-West Lifeco** (TSX: GWO) and the 221% MCCSR ratio at **Sun Life Financial** (TSX: SLF)(NYSE: SLF).

So how expensive are the shares?

Despite Manulife's impressive results and its strong capital ratio, the company still trades at a discount to its peers, at just 11.9 times earnings. By comparison, Great-West trades at 12.6 times earnings and Sun Life at 14.9 times. Why is there such a discrepancy?

One reason is the dividend. Manulife pays only a $0.13 quarterly dividend despite earning $1.62 in earnings per share last year. This is a very low payout ratio. As a result, the company has a dividend yield of only 2.5%, well below Sun Life's 3.7% and Great-West's 4.2%.

Another reason is leftover trauma from the crisis; after what Manulife went through, there are plenty of people simply unwilling to own the shares. But this is not a good reason to avoid the company's stock, and it's left the rest of us with an opportunity to pick up a solid company at a great price.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:MFC (Manulife Financial Corporation)
2. TSX:GWO (Great-West Lifeco Inc.)
3. TSX:MFC (Manulife Financial Corporation)
4. TSX:SLF (Sun Life Financial Inc.)

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