Should You Buy Shares of Manulife Financial Corp.?

Description

On Thursday, **Manulife Financial Corp.** (TSX: MFC)(NYSE: MFC) reported its second-quarter earnings for 2014. Core income came in at $0.36 per share, missing estimates of $0.40.

Yet something interesting happened: the stock opened up over 2% from the previous night's close. So why the increase? Well, quite simply, Manulife raised its dividend for the first time since halving it in 2009, something that investors have been anxiously awaiting.

So what should investors do now? Below we take a look.

Some background

To establish some context, let's go back to the financial crisis. Manulife was reeling, having overexposed itself to risky products tied to stock market performance. The company was struggling to raise capital, and in 2009, as mentioned, had to halve its dividend. Manulife ended up suffering more than any other large financial institution in Canada. Even after the crisis ended, the company struggled for years in a low interest rate environment.

After going through such a traumatic experience, Manulife didn't want to hike its dividend back up. Instead, it preferred to build capital. As a result, it ended up with a lower payout ratio and a higher capital ratio than its peers.

So something had to give, and that something occurred today, as the company hiked its dividend by 19%, to $0.155 per share per quarter. Better yet, with plans for steep earnings growth, Manulife should get into the habit of raising its dividend every year.

The future

Today, Manulife is a completely different company, and is arguably stronger than ever. In the most recent quarter, diluted core earnings per share are up 16% year-over-year, insurance sales (ex. Group benefits) is up 10%, and funds under management is up 11%.

The news continues to be very good in Asia, with strong insurance sales in Japan in particular. The wealth management business continues to be a strong performer as well; Q2/2014 was the 23rd consecutive quarter with record funds under management.

So the company is very well-positioned to achieve its target of $4.0 billion in core earnings by 2016, despite missing estimates this quarter. What a difference five years makes!

So is Manulife worth buying?

Despite the dividend raise, Manulife is still targeting only a 35% payout ratio (i.e. it only intends to pay out 35% of its earnings as dividends). As a result, Manulife still trades at a discount to its peers, although some of this discount may be due to hangover from the crisis.

But that is what makes Manulife such a perfect opportunity. After all, should a company really trade at a discount just because it has a lower payout ratio? Or because of mistakes made five years ago? Probably not, especially if it is firing on all cylinders today.

So if you’re willing to accept a slightly lower yield, then Manulife should at least be on your radar screen.

CATEGORY

1. Investing

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1. NYSE:MFC (Manulife Financial Corporation)
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