Is Manulife Financial Corporation a Safe Investment?

Description

During the great recession, shares of **Manulife Financial Corporation** (TSX: MFC)(NYSE: MFC) got crushed, dropping from $40 to below $10. At one point, it looked like the company might be headed for penny stock status.

Falling equity markets hammered the value of Manulife's investments and plunging interest rates stripped the company of its ability to earn reasonable rates of return.

Faced with a capital crunch, Manulife slashed its dividend in half and raised $2.5 billion in capital to shore up its balance sheet.

Today, things are looking much better for the company, but wary investors are still avoiding the stock.

Positive developments

Here are the positive developments for potential investors in Manulife Financial Corporation.

1. Renewed dividend growth

Manulife finally started to raise its dividend again. In its Q2 2014 earnings report, the company announced that it is raising its quarterly dividend by 19% to $0.155. The current yield is about 2.8%.

This is still a long way from the $0.26 it was paying back in 2009, but it is a step in the right direction.

I think there are more dividend hikes to come, considering the dividend payout ratio is only 23.6%. By comparison, the payout ratio at **Sun Life Financial Inc.** (TSX: SLF)(NYSE: SLF) is 37.6% and **Great-West Lifeco Inc.** (TSX: GWO) has a payout ratio of 50.33%.

Donald Guloien, Manulife's CEO, told analysts on the conference call that Manulife is confident in raising the dividend at this time because the company's strategic plan is unfolding well.

2. Lower risk profile

Manulife has done a good job of reducing its interest rate and equity market sensitivities.

In the latest report, Manulife indicated a 1% parallel decline in interest rates would have a negative impact of $600 million on earnings. This is down from $1.8 billion in 2010 but up from $400 million in 2013.

The company has also greatly reduced its sensitivity to a drop in equity markets. Manulife estimates that a 10% equity market decline would hit earnings by $430 million. This is down from an $800 million risk in 2011.

Manulife finished the second quarter with a Minimum Continuing Capital and Surplus Requirements (MCCSR) ratio of 243%, which is significantly higher than the 150% supervisory target level required for life insurance companies by the Canadian Government's Office of the Superintendent of Financial Institutions (OSFI).

In short, Manulife has a healthy level of capital coverage.

3. Cheap stock price

Manulife shares are currently trading at 10.3 times earnings. This compares with 13.0 times for Great-West Lifeco and 14.5 times for Sun Life.

Negative aspects

There are a few things potential investors should be concerned about when looking at Manulife's recent reports.

1. Earnings miss

Manulife has missed analyst earnings expectations in each of the past three quarters, which might be one reason for the hesitancy of the market to give it a better valuation.

2. Inconsistent revenue

Another concern is the inconsistency in earning from some of its international operations.
Manulife's year-over-year insurance sales in Asia were up 26% in the second quarter, but its Asian wealth sales were down by 33%.
In the U.S., insurance sales dropped by 12% but wealth sales were 7% higher for the same time period.

The bottom line

For long-term investors, I think Manulife Financial Corp. is a good bet. The company is very stable, the dividend will likely continue to increase, and any hike in interest rates will have a significant positive impact on Manulife's earnings.

CATEGORY

1. Investing

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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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