

Why Value Investors Should Buy Manulife Financial Corp. Right Now

Description

Manulife Financial Corp. ([TSX: MFC](#))([NYSE: MFC](#)) is back from the dead, so savvy investors should take advantage of the current opportunity to buy the stock while it is still cheap.

The Great Recession caused a lot of pain for Manulife Financial investors, who had to endure a share price in the \$10 range (from \$40) and a dividend cut in half. After raising \$2.5 billion to stabilize its financial position, however, the company has slowly returned to a position of strength.

More recently, Manulife has shown that, through strategic acquisitions, it is financially healthy and capable of driving growth.

Here are four reasons why investors should add Manulife Financial to their portfolio before the stock market catches on.

1. Acquisition of Standard Life's Canadian assets

Manulife announced September 3 that it has agreed to purchase the Canadian assets of **Standard Life plc** for \$4 billion. The acquisition will add about \$60 billion in assets under management to Manulife's holdings.

There are two key aspects to this deal that investors should be excited about: Manulife and Standard Life are launching a global agreement to cross-sell the other's products to their respective clients. Thus, there is a great opportunity for a cost-efficient worldwide rollout of Manulife, Standard Life, and John Hancock products. (John Hancock is Manulife's U.S. operation.) Also, the Standard Life assets should give Manulife a boost in Quebec. Manulife has a low level of penetration there, and is keen to expand its operations in the province, where roughly 23% of Canadians live.

2. Reduced risk to financial market volatility

Manulife learned a big lesson in the recent crash and has done an excellent job of reducing its risk to big drops in both interest rates and stock market valuations.

In the Q2 2014 report, the company indicated that its sensitivity to a 10% stock market decline is now about \$430 million. This is significantly better than the \$1.8 billion risk it carried in 2010.

Manulife is also very well capitalized, ending the second quarter with a Minimum Continuing Capital and Surplus Requirements (MCCSR) ratio of 283%. This is significantly higher than the 150% level required by the Canadian government.

3. Dividend growth and capital management

In its Q2 2014 earnings report, Manulife hiked the dividend by 19% to \$0.62 per share. Some investors were looking for a bigger dividend increase given the fact that the company has ample free cash flow.

In fact, the dividend payout ratio based on Q2 earnings is about 24%.

With the \$4 billion purchase of Standard Life's Canadian assets, investors now have a clearer picture of the company's strategy.

I expect Manulife to increase the dividend again in 2015 as the company absorbs the new assets.

4. Cheap valuation

Manulife has a price-to-earnings ratio of 10.4, which is much lower than its Canadian competitors. **Sun Life Financial Inc.** has a P/E ratio of 14.8, and **Great-West Lifeco Inc.** trades at 13.2 times earnings.

The bottom line

Manulife Financial has a solid balance sheet, is increasing its dividend, and has the financial firepower to make strategic acquisitions. I believe investors should consider adding the stock to their portfolio before the market realizes that it should be trading at a higher multiple.

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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