What Investors Need to Know About Manulife Financial Corporation's Latest Major Acquisition

Description

It's been about 10 years since **Manulife Financial Corp.** (TSX: MFC)(NYSE: MFC) made a blockbuster acquisition. Back in 2004, Manulife picked up U.S.-based insurer **John Hancock** for $15 billion. Now, Manulife has opened its cheque book once again and acquired Canada's No. 5 insurance company **Standard Life Canada**.

Manulife picked up the insurer after months of bidding from its British parent company, **Standard Life PLC**, for $4 billion, or two times book value. But what nuggets should investors glean from this new deal from the country's largest insurer by market capitalization with $300 billion in assets under management?

Quebecois considerations

A big factor for this deal in the eyes of Manulife aside from the 1.4 million customers is the footprint Standard Life Canada holds in Quebec, where Standard Life Canada has outperformed Manulife.

This is a sentiment that Manulife isn't shy about, with CEO Donald Guloien saying, "Unfortunately, Manulife has historically been underrepresented in Quebec, both in terms of jobs and our penetration of the market."

Not only will Manulife get a customer boost in Quebec but also a slew of new opportunities to boost both companies' wealth management segments. Manulife, however, will shed the Standard Life banner in the province and rebrand it under its Quebecois moniker, Financière Manuvie, and has pledged not to cut jobs from the Standard Life segment for 18 to 24 months to ensure a steady customer integration.

Flurry of financing

In order to pay for this purchase, Manulife will seek funding with $2.1 billion worth of subscription receipts (or one share plus dividend per holder receipt). This will be in tandem with a $1.6 billion bought deal offering in addition to an investment of $500 million coming from inside Quebec, from

Caisse de dépôt et placement du Québec, a pension management firm that already holds an interest of over $1 billion in Manulife.

This funding from Quebec allows Manulife in a roundabout way to double down in la belle province. It assumes a substantial portfolio of Quebec assets and clients and acts as a PR move to establish Montreal (in a greater way) as a financial hub, a sentiment that Caisse de dépôt et placement du Québec has already begun to advertise.

Investors share

The remaining cash for the deal will come right from Manulife along with a pledge not to lower its dividend payouts of $0.62 annually with a yield of 2.8% to cover the debt.

In all, analysts predict that by 2016 earnings per share will only rise by 1.5%, or $0.03 per share. Meanwhile, the cost to integrate the companies is expected to be $150 million over the next three years, after which about $100 million in cost savings is expected to be reached. This will help Manulife meet its internal target of $4 billion of annual core earnings by 2016.

Manulife's stock closed Friday at $21.92, up near the top of its 52-week range of $16.86 to $22.53 and has a largely unchanged post-announcement average price target of $24.40.

CATEGORY

1. Investing

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Date
2025/08/24
Date Created
2014/09/08
Author
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