Is Manulife Financial Corp. Canada's Top Value Stock?

Description

Manulife Financial Corp. (TSX: MFC)(NYSE: MFC) had a rough time during the Great Recession. The company got caught in a perfect storm of plunging equity markets and rock-bottom interest rates.

Amid the chaos, Manulife raised $2.5 billion to shore up the balance sheet and slashed its dividend by 50% to preserve cash flow. Before it was all over, investors saw the share price lose 75% of its value.

Today, Manulife is in much better shape but the market still hasn't forgiven the company for the pain it caused investors during the crisis. Is now the time to wade back in and add Manulife to your portfolio?

Let's take a look at the current situation to see if Manulife deserves your investment money once again.

Risk profile

Management at Manulife learned a big lesson during the crisis. The company has put measures in place to reduce its exposure to big moves in both equity markets and interest rates. In its Q2 2014 earnings statement, Manulife said its sensitivity to a 10% decline in equity markets is now about $430 million. The exposure was $1.8 billion in 2010.

The company is also well capitalized. The Minimum Continuing Capital and Surplus Requirements (MCCSR) ratio is 283%. The Canadian government requires a minimum of 150%.

Expansion in Canada and abroad

On September 3, Manulife surprised markets by announcing it will buy the Canadian assets of **Standard Life plc** for $4 billion. The acquisition adds about $60 billion in assets under management and sends a strong signal to the market that Manulife is on a solid footing and focused once again on growth.

Investors should like the deal because it gives Manulife a competitive presence in Quebec where it has previously struggled to gain traction. The company announced last week that it will help build a new office tower in Montreal.

The second part of the agreement with Standard Life could add significant value to Manulife's Asian operations. Manulife and Standard Life will cross-sell products to their respective international customers. The global footprint held by the two companies makes the arrangement very interesting. Suddenly, both companies have a very cost-efficient way to grow their businesses in global markets.

Dividend growth

Manulife increased its dividend by 19% when it announced the second quarter results. At $0.62 per share the payout ratio is only about 24%, so the company has a lot of room to boost the distribution, especially considering the added cash flow the company will receive once it integrates the Standard Life assets.

Compelling valuation

Manulife's price-to-earnings ratio is 9.5, a significant discount to its Canadian competitors. **Great-West Lifeco Inc.** trades at a P/E ratio of 12.4 and it costs investors 13.6 times earnings to buy **Sun Life Financial Inc**.

In summary, Manulife has a strong balance sheet, the recent acquisition will boost cash flow, and dividends should continue to increase at a healthy rate. With the stock trading for less than 10 times earnings, I think Manulife deserves a spot in a value investor's portfolio.

An alternative to the banks
Manulife is a great value play and it might be the best choice for investors who want to have a financial stock in their portfolio without the risks facing the big banks.

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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