Why You Should Switch Your Toronto-Dominion Bank Stock Into Manulife Financial Corp.

Description

Toronto-Dominion Bank (TSX: TD)(NYSE: TD) is not only Canada's second-largest bank, it is Canada's second largest company overall. It is also one of the country's most popular investment options, and for good reason. TD has a fantastic track record, and one of the greatest banking franchises in the world. Investors can surely feel very safe owning the shares.

Meanwhile, **Manulife Financial Corp.** (TSX: MFC)(NYSE: MFC) does not have the same pedigree as TD. Canada's largest life insurer suffered greatly during the financial crisis, and its recovery was rather slow. Even today, despite being much healthier, it still has a lower-yielding dividend.

That being said, if you do own TD stock, there's a compelling case to switch (at least some of) it into Manulife. Below are the two biggest reasons.

1. Growth potential

While TD makes most of its money in Canada (roughly 64% of total net income last year), its biggest growth opportunity is in the United States, where it actually has more branches. The banking environment in the U.S. isn't ideal right now, with a low demand for loans, as well as low interest rates. Ideally, those factors will improve as TD expands further — this could boost earnings dramatically for the bank.

But the U.S. is still not an ideal place to pursue growth. Banking in the U.S. is ferociously competitive, and as a result, profitability tends to be low. Even once the banking environment improves, competition will continue to hamper profitability.

Meanwhile, Manulife’s growth focus is a little different. While the company also has a big footprint inthe U.S., its biggest growth opportunity is in Asia. And this is a big advantage, for a couple of reasons.One is that Asia is growing faster than the U.S. Better yet, breaking into the market is difficult andexpensive for companies that are not already there. Manulife’s long history in Asia gives the companya clear leg up, something that TD doesn’t quite have in the U.S.

2. Price

As mentioned, TD stock is much more popular than Manulife’s, and this shows up in their respective stock prices. TD is far more expensive, trading at 13.3 times earnings, compared to Manulife’s 9.7 times.

There are a few reasons for this discrepancy. Besides having a better reputation, TD also has a better dividend yield. TD is also arguably safer. The year 2014 has not been a kind one to emerging markets stocks, and Manulife is no exception — its shares are down 2% this year, while TD’s are up by 8%.

But these are not good enough reasons for Manulife to trade at such a discount. That creates a wonderful opportunity.

This discussion leaves out the other Big 5 banks. But the free report below covers those in greater detail. It’s certainly worth a read.

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