Will Manulife Financial Corp. Hit $35?

Description

Manulife Financial Corp. (TSX: MFC)(NYSE: MFC) took a severe beating during the financial crisis but the company has rebounded nicely and a big move to the upside could be in the works.

Here are the reasons why I think Manulife could run much higher in the next 12 months.

1. Valuation

Manulife has a price-to-earnings ratio of 10. This is much lower than its peers. **Great-West Lifeco** (TSX: GWO) trades at 13 times earnings, and **Sun Life Financial Inc.** (TSX: SLF)(NYSE: SLF) has a P/E ratio of 14.5.

2. Dividend growth

Manulife slashed its dividend by 50% during the crisis and investors are still punishing the company for that decision. However, the company has started to increase the payout again and I think the dividend hikes will continue to be consistent and substantial.

Manulife increased its dividend by 19% when it reported Q2 2014 earnings. The current payout of $0.62-per-share yields about 2.9%. The dividend payout ratio is only about 24%, meaning the company has a lot of room to increase the distribution and still fund growth initiatives.

3. Asset growth

Manulife recently announced its plan to purchase the Canadian assets of Standard Life plc for $4 billion. The deal will give Manulife a strong presence in Quebec, where it has struggled to gain a solid foothold. The acquisition will add about $60 billion in assets under management. Cash flow from the new business should support a dividend hike in 2015.

Manulife and Standard Life have agreed to cross-sell each other's products. This gives bothcompanies a cost-effective way to pursue international growth in regions where the brands andproducts have low penetration.

For example, Standard Life operates in India, where the government is currently opening up the insurance market to more foreign investment. Manulife does not currently have an Indian business unit.

4. Financial stability

Manulife has done a good job of strengthening its balance sheet and reducing its risk profile. During the crisis, the company issued $2.5 billion in stock to stabilize its capital position. In the Q2 2014 report, Manulife said its Minimum Continuing Capital and Surplus Requirements (MCCSR) ratio is 283%. This is significantly higher than the 150% level required by the Canadian government. Manulife has also taken measures to protect itself from volatility in equity markets. In 2010, a 10% drop in the stock market meant a $1.8 billion hit. Today, that sensitivity is about $430 million.

5. Rotation out of the banks

Fears about the Canadian housing market could be beneficial for Manulife. The company has a strong wealth management operation and this is an area that many of the banks are targeting for growth. At the same time, Manulife doesn't have significant exposure to a possible crash in the retail mortgage market.

Investors might decide to rotate their financial sector holdings into the insurers.

Manulife has a lot going for it right now. If the market decides to give it a valuation that is similar to its peers, the stock will move significantly higher. The situation for the Canadian banks is an iteresting one. If you own shares of the Canadian banks or are considering buying them, you might want to check out the following report.

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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