Why Are Manulife Financial Corp. and National Bank of Canada Trading at a Discount?

Description

It's a well-known fact that when investors are nervous, stock prices can be heavily discounted. And if you are willing to go against the crowd, that can lead to great opportunities.

In Canada, two financial services companies – **Manulife Financial Corp.** (TSX: MFC)(NYSE: MFC) and **National Bank of Canada** (TSX: NA) – are perfect examples of this. Below, we show you why.

Manulife: not as risky as you think

To understand why Manulife makes investors nervous, one has to look back to the financial crisis. At the time, Manulife suffered more than any other Canadian financial institution. It even struggled to raise enough capital to survive. Investors suffered greatly, as the stock sank from over $40 to below $10 in less than 15 months.

Since then, Manulife has focused on building up lots of capital. To do this, it didn't raise its dividend until this year, and still pays out a very low portion of earnings to shareholders – the company's stock yields a paltry 2.5%.

Few investors want to buy a company that nearly collapsed just a few years ago, especially if the dividend yield is low. As a result, Manulife trades at only 10.1 times earnings. But the company has much greater growth opportunities than its rivals – in fact, about a quarter of its business is in Asia, while **Sun Life** has less than 10% of its business there. Manulife is also better-capitalized than its rivals. So this is a great opportunity to pick up a strong company at a discount.

National Bank: still heavily discounted

The past few months have been very kind to National Bank shareholders, with the shares up roughly 20% since late June. By comparison, none of the Big Five banks have even returned 10%. To be fair, an improving economy in Quebec deserves part of the credit.

But National has also performed very well. In the most recent quarter, its profit from personal and commercial lending was up a healthy 6%, just the latest in a string of positive surprises. In fact, National has been doing so well that CEO Louis Vachon was just named *Canadian Business* CEO of the year.

Yet the bank still trades at only 12.3 times earnings, cheaper than the average Big Five bank. The reason is quite simple: The bank is perceived as very risky. This partly comes from its concentration in Quebec, which accounts for a majority of loans outstanding. Furthermore, a substantial portion of net income comes from its financial markets division, which is more volatile than personal and commercial banking.

But as long as you hold National as part of a well-diversified portfolio, these risks should not prevent you from buying the stock. This is an opportunity to buy a well-functioning bank with a respected CEO, at a discount.

This discussion does leave out the big-five banks, some of which are worth buying as well. The free report below discusses them in further detail, and reveals which ones are worth a spot in your portfolio.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:MFC (Manulife Financial Corporation)
2. TSX:MFC (Manulife Financial Corporation)
3. TSX:SLF (Sun Life Financial Inc.)

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