3 Reasons to Buy Manulife Financial Corp.

Description

On Thursday, **Manulife Financial Corp.** (TSX: MFC)(NYSE: MFC) reported third-quarter earnings for 2014, and the results were generally solid. Net income of $1.1 billion was up 6%, year-over-year, and so-called "Core Earnings" increased 7%. The company remains on track to deliver its 2016 core earnings goal, and its capital position has also improved considerably.

The results also offered us some useful reminders about some big reasons to buy Manulife shares. Below are the top three.

1. Asia

Manulife has a very enviable foothold in Asia, and this geography continues to be a prime source of growth. In the most recent quarter, Manulife grew core earnings in the region by 18%, led by 46% growth in insurance sales and 74% growth in wealth sales. Overall, Asia accounted for about a third of core earnings in the quarter.

Sun Life Financial Inc. (TSX: SLF)(NYSE: SLF) is also interested in growing its Asia presence, with a goal of 12% exposure by 2015, but acquisitions don't come cheap. As one analyst put it, when talking to *The Globe and Mail*, "Generally the Asian assets have gone for very heady premiums, and it isn't the most sensible bidder that always wins."

Manulife on the other hand has been in Asia for a long time. It was there before everyone else started piling in. And now, that's something to be envied.

2. The Standard Life acquisition

Just because Manulife has a strong presence in Asia doesn't mean it's ignoring the domestic market. And that became even clearer this past quarter, when the company bought the Canadian operations of Standard Life for $4 billion. The move allows the company to build up its position in wealth management, which is lower risk (and higher-return) than offering insurance.

The move is also accretive, meaning it will increase Manulife's earnings per share. Part of this will come from annual cost savings of $100 million, which should be “largely achieved by the third year.”

Also important, the transaction should have little impact on Manulife’s capital ratios. So investors don’t have to worry about the company’s solvency any time soon.

3. The price

Despite these positives, Manulife still trades at only 10.3 times earnings. This is cheaper than each of the Canadian big banks, and also very cheap for a company with such a foothold in the Asian market.

There are a couple of reasons for the discount. One is Manulife’s history – the company suffered very badly during the financial crisis, and many investors likely remain wary. Secondly, the company still doesn’t pay out much of its earnings as dividends, which would be unpopular among income investors.

But if you’re willing to overlook these issues, then you can pick up a great company for a bargain price.

CATEGORY

1. Investing

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

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bensinclair