



## 3 Reasons to Buy and Hold Manulife Financial Corp. Forever

### Description

Growing market volatility and increasing uncertainty over the global economy have made stock investing fundamentals more important than ever. Investors who adhere to those fundamentals will find themselves increasingly successful when compared to those who don't.

Key among these fundamentals are identifying stocks that are undervalued in comparison to the intrinsic value of the underlying business, have low earnings volatility, and possess a wide economic moat. These companies are capable of rewarding investors for decades and are the perfect stocks to hold forever.

One company that stands out is **Manulife Financial Corp.** ([TSX: MFC](#))([NYSE: MFC](#)). Manulife's biggest strengths boil down to three key points.

First, the company holds a dominant position in the life insurance and investment management industry. It is the largest life insurer in Canada, the largest in North America, and the 30th largest money manager globally. This, coupled with the steep barriers to entry for the life insurance and funds management industry, makes the company's business almost impossible to replicate.

It also endows Manulife with a wide economic moat, and both of these characteristics help to protect its competitive advantage.

Its acquisition of Standard Life in September 2014 for \$4 billion added \$60 billion of assets under management and expanded its franchise in Quebec, where it has been historically underrepresented. This further strengthened its economic moat and will boost Manulife's bottom line, with a range of synergies gained from the transaction.

Second, Manulife's business is virtually recession-proof.

While policy holders may reduce their level of cover during difficult economic times, they typically continue to maintain their existing policies, and life insurers still generate a residual on every policy they hold. Funds management also tends to be a sticky business, which is a cash cow for money managers, generating a steadily growing revenue stream as investment inflows grow.

Despite increasingly volatile stock markets and growing concerns about the global economy, Manulife's funds under management, or FUM, for the third quarter 2014 grew 1% quarter-over-quarter and 9% year-over-year, to \$662 billion. This increase in FUM directly contributed to Manulife generating higher fee income for the third quarter, which was an important driver of net income growing a healthy 6% year-over-year.

Finally, Manulife has a solid history of rewarding shareholders, having paid a dividend since 1999.

It also hiked its dividend at the end of the second quarter 2014 by 19%, the first time since the global financial crisis erupted. This now gives Manulife a healthy dividend yield of 2.9%, coupled with a very conservative and sustainable payout ratio of 29%.

I expect the company to continue hiking its dividend, with its current dividend almost half of its pre-GFC dividend payment, which it slashed at the height of the crisis as a means of preserving capital and shoring up its balance sheet.

When each of the characteristics discussed is considered in conjunction with Manulife's appealing valuation metrics — an EV of five times EBITDA and a forward PE of 11 — now is the time to for investors to take the plunge. Manulife is a high-quality company for any buy-and-hold investment portfolio.

## **CATEGORY**

1. Dividend Stocks
2. Investing

## **TICKERS GLOBAL**

1. NYSE:MFC (Manulife Financial Corporation)
2. TSX:MFC (Manulife Financial Corporation)

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