Manulife Financial Corporation’s Money Magic

Description

In this age of low interest rates, investors who favour financial companies have limited options, either you favour the banks or insurance companies. Many have sided with the banks because the low interest rates tend to limit the bottom line of insurance companies.

Now **Manulife Financial Corporation** (TSX: MFC)(NYSE: MFC) has released its third-quarter report so let’s investigate to see if it’s time for insurance companies to shine in your portfolio.

Q3 results

Before we begin, two years ago Manulife restructured its earnings reporting structure by replacing revenues with “core earnings”. This in essence limits any direct impact from interest rates, unsteady equity markets and several one-time items from skewing top line results.

Core earnings in Q3 2014 came in at $755 million up from $704 million during the same period last year. This is good news for the company and investors as this keeps the company on track to meet its 2016 target of $4 billion in core earnings annually.

Manulife’s management has reiterated recently that it “doesn’t want to be so beholden to a target that we will make sacrifices with respect to the long-term health of the business in order to meet that target.”

Net income (attributable to shareholder) saw a modest gain totalling $1.1 billion ($0.57 per diluted share) up from $1.03 billion ($0.49 per diluted share) during the same period last year.

While core earnings and net income are up, there are some areas of concern as Manulife’s return on equity fell in the quarter to 14.8% from the 16.8% generated last year. Despite these lower earnings, Manulife has managed to post 24 consecutive quarters of record funds under management, which now totals over $663 billion.

Asian growth

It was a very good quarter for Manulife and its operations in Asia, with highlights such as an 83%

increase in insurance sales in Japan that totalled US$165 million. The company also enjoyed a 37% increase in insurance sales in Hong Kong, a 14% increase in insurance sales in Indonesia and 16% growth in its “Asia other” territories.

Wealth sales in Asia rose an astounding 74% compared to Q3 2013 coming in at US$2.2 billion, but its year-to-date results have fallen by 14% to $5.6 billion.

Overall wealth sales in the quarter fell by 15% as these double-digit increases in its Asian operation were not enough to make up for Manulife’s North American operations.

Are the home fires dwindling?

Here in Canada, Manulife’s insurance sales fell to $143 million a drop of 23% over last year’s quarter and year-to-date sales are down by 58%. Group benefits appear to be a major source of the lost revenues — when group benefits are removed from the results, insurance sales are up by 5% for the quarter.

Down south, U.S. insurance sales dropped by 19% compared to Q3 2013 and year-to-date insurance sales are down by 19%.

Standard Life Canada purchase a go

One bit of good news that should fatten up the books for the Q4/year-end release is that the Federal Competition Bureau has approved Manulife’s $4 billion offer to purchase the Canadian operations of Standard Life PLC. This will give Manulife a sizeable footprint in Quebec, a province where Manulife has seen lackluster development.

Overall this was a very mixed bag of results for Manulife. Its North American growth is slowing down and the company is riding on its Asian expansions. But for how long? Competition is just as fierce across the Pacific and it still has to contend with several of its Canadian competitors there as well, including the banks.

CATEGORY

1. Investing

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