



Could Manulife Financial Corp. Shares Reach \$32 by 2016?

Description

It's amazing the difference that five years can make.

During the financial crisis, no Canadian financial institution suffered more than **Manulife Financial Corp.** ([TSX: MFC](#))([NYSE: MFC](#)). At the time, the company had to slash its dividend as it struggled to raise enough capital to stay afloat. Over the next couple of years, Manulife struggled to get off the ground.

Today, the story is completely different. Since December 2011, the shares have roughly doubled. And rather than talk about recoveries and building capital, management is now highlighting its growth prospects.

So is it too late to buy the shares? Below we take a closer look.

A focus on Asia

Manulife has operated in Asia for over 100 years, and the continent now accounts for roughly a third of Manulife's so-called "core earnings". And these days, Asia is a very good place to be. By 2030, it will account for a big majority of the world's middle class as well as the world's over-65 population.

Meanwhile, competitor **Sun Life Financial Inc.** ([TSX: SLF](#))([NYSE: SLF](#)) would love more exposure in Asia – the continent accounts for less than 10% of income – but gaining a foothold is very difficult. Manulife has its history on its side, while newer entrants must compete for acquisition targets, many of which have become very expensive.

A growing dividend

As part of Manulife's plans to build up capital, it didn't raise the dividend for five years after cutting it in 2009. Only in the second quarter of 2014 did the quarterly payout increase from \$0.13 to \$0.155 per share.

Of course this doesn't sit well with dividend investors, who look for growing dividends with a nice yield.

For years, Manulife has offered neither. Even after the payout hike this year, the stock still only yields 2.8%, well below Sun Life.

That being said, there's plenty of room for Manulife to grow its dividend in the future. The company has made over \$2 per share in income over the past 12 months. And if the dividend goes up, that could create a lot more interest in the shares.

Where does that leave the stock price?

So how high can Manulife shares go? Well, the company is targeting core earnings of \$4.0 billion by 2016, and I think a company with a third of its business in Asia should trade for at least 15 times earnings. So that would value the company at \$60 billion, or \$32 per share at today's levels.

Of course, if the company bumps up its dividend even more, then the multiple could go even higher. So there's plenty of upside in the company's shares.

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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