



## Is Manulife Financial Corp. Still a Buy After the Interest Rate Cut?

### Description

Investors in Canada awoke to quite the surprise last Wednesday: The Bank of Canada slashed the overnight interest rate from 1% to 0.75%. With the overnight interest rate being stuck at the historically low 1% since 2010, the widespread consensus seemed to be that an interest rate hike was on the way.

With economists now speculating on another interest rate cut in March, especially if oil prices remain flat or fall more, interest rate-sensitive life insurers like **Manulife Financial Corp.** ([TSX:MFC](#)) ([NYSE:MFC](#)) will be affected. Does this mean you should avoid buying Manulife? On the contrary.

### **Manulife has a low risk profile, and can tolerate slightly lower rates**

If you held Manulife during the great recession, the recent interest rate cut may have you slightly worried. Manulife shares at the time dropped nearly 75%, largely due to the fact that Manulife's investments decreased substantially in value, and the plunging interest rates severely reduced investment income. In short, Manulife was undercapitalized, and needed to raise \$2.5 billion to meet capital requirements.

Thankfully, things have improved dramatically. In Q3 2014, Manulife had a Minimum Continuing Capital and Surplus Requirements (MCCSR) ratio of 248%, significantly above the target level of 150%, and five points above Q2 2014's MCCSR. An MCCSR of 100% means a company can fully meet its obligations to its policy holders, and Manulife's strong position in this regard positions it well to withstand lower rates.

In addition, Manulife has been reducing its sensitivity to interest rate and equity market declines. In 2010, Manulife would have incurred a \$1.8 billion decline in earnings per 1% decline in interest rates. As of Q3 2014, the same 1% decline would result in a \$700 million decline, representing a 61% reduction.

With a financial leverage ratio of 27%, down from 32% one year ago, Manulife has a healthy balance sheet, lowering interest rate sensitivity, an increasing MCCSR (in fact, the highest MCCSR amongst its two major peers), and is well suited to tolerate the stress from declining rates.

## Strong growth profile

Although the decline in rates represent a minor headwind for earnings, Manulife's excellent growth profile (in conjunction with the economic stimulus that will occur as a result of low rates and low oil prices) still makes it a compelling buy, and will serve to mitigate effects of the rate decline.

Manulife is progressing towards \$4 billion in core earnings by 2016, almost double 2013's core earnings. This is occurring through several different channels. Manulife has been aggressively expanding its global wealth and asset management business, and in Q3 2014, the company posted its 24th consecutive quarter of record funds under management.

Manulife has also made several smart acquisitions, which will continue to boost funds under management, as well as provide future growth opportunities. The September 2014 purchase of Standard Life Plc adds about \$60 billion to funds under management, and will add to Manulife's scale in Canada and improve product and service offerings as well as distribution.

The same can be said for the company's recent acquisition of New York Life's retirement plan services (RPS) business, which should further accelerate Manulife's wealth and asset management business, and be accretive to EPS.

Finally, talk of Manulife's growth cannot be complete without mention of its Asia growth strategy. Manulife has been aggressively expanding into Asia, and is currently experiencing double-digit insurance and wealth sales growth in most regions, achieving record insurance sales in Q3. With two-thirds of the world's middle class expected to be in Asia by 2030, this is a smart play.

## Manulife is still a buy

Manulife shares remained stable on news of the interest rate cut, which is a good sign the market is not overly concerned. With a low P/E ratio of 9.58 (well below its Canadian peers), the recent interest rate cut should not deter you from owning a piece of this growth story at an excellent price.

## CATEGORY

1. Investing

## TICKERS GLOBAL

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

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## Date

2025/08/26

## Date Created

2015/01/26

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