Why You Shouldn't Treat Manulife Financial Corp. as Insurance for Your Portfolio

Description

Year-end financial reports from the insurance sector are upon us and investors have been struggling to determine what to do going forward in 2015. Today we will be looking at **Manulife Financial Corp.** (TSX:MFC)(NYSE:MFC) to see if it could act as some added insurance to get you through 2015.

Unexpected casualties

The falling price of oil has been dominating the headlines for the past few months, and investors have been looking for options for gains. It has come as a surprise to many that even Manulife has fallen victim to the crude crash. The gas and oil portion of Manulife's portfolio before the Q4 price crash was valued at $ 2.2 billion, but at the end of Q4 the portfolio's value had dropped to $1.8 billion.

Despite this very noticeable $353 million investment-related loss in Q4, Manulife is looking to continue loading up on energy stocks while the prices are deflated. This goes to show that it is not just everyday investors feeling the pain in this situation, and it also shows the confidence that major players have in the inevitable long-term recovery of the energy market.

Good results

Manulife claims to be pleased with its performance in 2014. Some numbers are encouraging, but lurking within the financial pages there are some troubling sections. Core earnings, (which separates the business's performance from fluctuations in interest rates and equity markets) totalled $713 million in Q4 2014, down from $755 million last year. Core earnings throughout 2014 managed to rise slightly to $2.8 billion from $2.61 billion, but missed analysts' expectations by a margin of $0.05 per share.

Net income in the fourth quarter dropped to $640 million from $1.1 billion. This is thanks in part to the energy sector losses, higher than expected claim rates, and troublesome interest rates. However the $640 million is actually higher than what Manulife was projected internally to reach during the quarter. For the year, net income increased to $3.5 billion ($1.82 per share) from $3.1 billion ($1.63 per share) in 2013. These profits also keep Manulife on track to meet its once lofty goals to reach $4 billion in profits by 2016.

The bad news

What is concerning in the eyes of investors is the falling sales, especially insurance sales, which fell by a total of 10% in 2014. When we look at each region we see Canadian sales down 49%, U.S. sales down 11%, and Asian sales up by 31%.

Luckily for Manulife (and most insurance companies and banks), its wealth management division continues to compensate for some of its other losses. Wealth management sales increased by 1% to $52.6 billion, with Canadian sales falling 8%, U.S. sales rising by 3%, and Asian sales rising by 64%. If it weren't for Manulife's expansion into the Asian market, this could have been a very devastating year for the company. This is especially true when consider that total Canadian net income plummeted by 80% to $73 million.

A new Standard

Seeing this dramatic shift from Manulife's traditional North American revenue stream to new Asian dependencies, makes the recent acquisition of Standard Life PLC's Canadian assets more understandable to investors. The $4 billion acquisition is seen as a way for Manulife to finally break into Quebec while also adding 1.4 million customers and $6 billion in assets under management to its already $691 billion strong portfolio.

With interest rates remaining at record lows this will continue to keeps profits low for all insurance companies. This combined with narrow gaps between current prices and average price targets presents little short to mid-term returns for investors.

CATEGORY

1. Investing

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