



Should Dividend Investors Sell the Banks and Buy Manulife Financial Corp.?

Description

The oil rout has investors increasingly concerned that the Canadian economy and its bloated housing market could be in for a rough ride.

Shareholders are beginning to shift some of their funds out of financial stocks, but this is a tough decision to make because the banks are still doing well, especially in wealth management and insurance.

If you want to maintain exposure to these growth areas, while reducing mortgage exposure, one option is the insurance companies.

Let's take a look at **Manulife Financial Corp.** ([TSX:MFC](#))([NYSE:MFC](#)) to see if it is a safe place to park your cash.

From life support to growth

In the dark days of the Great Recession, Manulife slashed its dividend by 50% and raised \$2.5 billion in capital to shore up its balance sheet and ride out the chaos.

Shareholders watched the stock plummet from \$40 to \$10 per share, but the company managed to survive and the stock has enjoyed a nice recovery over the last three years.

With the financial crisis behind it, Manulife is now focused on growth. In 2014, the company announced two key acquisitions. The largest, a \$4 billion deal to buy the Canadian assets of Standard Life Plc., recently closed.

The purchase added 1.4 million new customers, \$6 billion in assets under management to the mutual fund business, and vaulted the company into the number two position in Canada for group retirement services.

The second deal, announced in December and expected to close in the first half of 2015, is the acquisition of New York Life's Retirement Plan Services business in the United States. Combined, the

two purchases increase Manulife's global retirement plan business by about \$80 billion.

The Standard Life deal significantly increases the company's presence in Quebec, but also gives Manulife a platform for international growth. Part of the transaction includes a collaboration agreement in which Manulife and Standard Life will cross-sell each other's products to global clients.

The potential long-term benefits are worth noting for investors.

Manulife is focused on growing its international operations, especially in Asia. The company already has strong businesses in China, Hong Kong, Japan, Indonesia, the Philippines, Vietnam, and Singapore. One country that could really add value to Manulife in the Standard Life partnership is India.

The Indian government is in the process of increasing the limit for foreign investment in its growing insurance industry. Standard Life already has operations in the country and the recent agreement could be a way for Manulife to enter the market.

Financials

Manulife reported 2014 net income of \$3.5 billion, a 12% increase over 2013. Total assets under management increased to a record \$691 billion, up \$92 billion from 2013's year end. Manulife increased its dividend by 19% in 2014. The current distribution of \$0.62 yields about 2.9%.

Risks in Canada

The downturn in the energy sector and the threat of a housing crash are on the minds of investors in all areas of the Canadian financial sector.

Manulife finished 2014 with about \$270 billion of invested assets. Mortgages accounted for \$39.5 billion, or about 15%. Canadian residential mortgages represented less than half of that number. Energy exposure is also a big concern in the markets. Oil and gas made up 1% of Manulife's total invested assets and 8% of the debt portfolio.

Should you buy?

Low interest rates continue to work against the company, although a rate hike is expected in the U.S. sometime this year, and that could trigger a move into insurance stocks, especially if the move is seen as the beginning of a new trend.

The company recently missed earning expectations for Q4 2014, so new investors have to be careful. The payout ratio is still very low. Another dividend increase could be in the cards this year, but the size and timing will depend on market conditions and new acquisitions.

The long-term growth opportunities in Asia are compelling, but the region still represents a small part of overall assets.

At this point, Canadian banks have already sold off quite a bit and are trading at attractive valuations. Switching to Manulife would require a belief that its earnings and dividend growth will significantly outpace the banks, and that the Canadian housing market is going to fall off a cliff. I'm not convinced that either will happen in the near term.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

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1. Editor's Choice

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