Manulife Financial Corp. Bulks Up in Asia. Is it Time to Buy This Insurance Stock?

Description

Manulife Financial Corp. (TSX:MFC)(NYSE:MFC) has spent plenty of time and money increasing its presence in Asia. Although the market represents a relatively small part of Manulife's business, the insurance company is betting the investments will pay off in the future. Manulife's stock is cheap compared to many of its counterparts in the insurance and banking sector, so is this a good time to buy?

This week Manulife spent $1.2 billion on a 15-year insurance distribution deal with DBS Bank that covers markets in China, Hong Kong, Indonesia, and Singapore. Under the terms of the deal, Manulife will have access to approximately six million clients in the life and health insurance space. DBS has 200 branches and a sales force of more than 2,000.

Joining with DBS "accelerates our growth in Asia, deepens and diversifies our insurance business, and gives us access to a much wider range of customers," said Donald Guloien, chief executive of Manulife, in a statement.

Barclays analyst John Aiken called the deal a "double win" for Manulife, because it is increasing its presence in the region (Manulife already has operations in the four countries) and re-affirming its position as a significant competitor and desirable partner in Asia.

"While investors will need to wait until 2017 for the accretion, we note that this should augment the momentum anticipated for 2016 for the merging economics of improving sales levels and the realization of the benefits from its efficiency and effectiveness program," Aiken wrote in a note to clients. Even with the large outlay of cash, Manulife's capital is expected to remain strong, Aiken said, with its regulatory capital ratio reduced by about 10 basis points on or before January 1, 2016.

Strangely enough, the recent slump in oil prices could be good news for Manulife, which recently signaled that it is interested in purchasing office towers and energy assets in Calgary, should the owners wish to sell.

"We are making it well known that we are a purchaser," said Kevin Adolphe, who leads Manulife Asset Management's private markets unit, in an interview with *Bloomberg*. "It usually takes a stress event for people to reset their expectations. We’re having these advance conversations so people know we’re interested.” Adolphe believes oil prices will stay low for a longer period than previous declines.

Manulife shares have been gradually recovering since declining to around $10 during the last recession and have climbed 7% in the past five years. The insurance giant, with nearly $700 billion in assets, recently reported 2014 net income of $3.5 billion, a 12% increase over 2013. Manulife increased its dividend by 19% in 2014. The current distribution of $0.16 per quarter yields 2.88%.

With the banks’ recent tepid performance on the markets, Manulife may just be the perfect tonic for income investors looking for a steady foothold in the financial services sector.

CATEGORY

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