3 Reasons to Trade Your Bank Shares for Manulife Financial Corporation

Description

For decades, bank stocks have anchored the portfolios of so many Canadians, and rightfully so. Our banks have been very profitable through thick and thin, and have acted responsibly along the way. Investors have benefited as a result.

Meanwhile, the road has been much rockier for **Manulife Financial Corporation** (TSX:MFC)(NYSE:MFC), Canada's largest life insurer. Before the financial crisis, it was known as one of Canada's great companies. Then when the crisis hit Manulife struggled to stay afloat, and cut its dividend in the process. Even after the crisis ended, Manulife struggled in a low interest-rate environment.

Fast forward to today, and the story is very different. On that note, I look at three reasons you should sell your bank stocks and buy Manulife.

1. Better growth opportunities

Earnings-growth numbers have traditionally been solid for the banks, but that may be about to change. Canada's economy is struggling mainly because of low oil prices, and just lost 20,000 jobs in April. Real estate prices remain elevated, and could be due for a correction. Interest rates remain low, and see little prospect of rising.

The story is very different for Manulife. Roughly a third of the company's core earnings come from Asia, and that share will surely increase in the years ahead. The region has a very fast-growing middle class, helping Manulife to increase earnings in the region. Just last quarter insurance sales in Asia increased by 42% year over year.

If that wasn't enough, Manulife has just inked a 15-year, $1.2 billion deal with DBS Group Holdings Ltd., which increases the insurer's presence in Singapore. These days, the banks just aren't generating these kinds of headlines.

2. Playing offence

The banks are facing a big threat from Silicon Valley, whose tech firms are threatening to disrupt the banking sector. And there are reasons to believe the tech firms will have at least some success. Above all, banks typically move at a snail's pace when it comes to new technology.

Manulife, on the other hand, is being more proactive. It is introducing a program whereby policyholders get rewarded for improving their health. The move not only will delay benefit payments, which improves Manulife's bottom line, but also strengthens the relationship it has with its customers. In any case, it's a very positive sign that Manulife is innovating its services faster than technology firms are.

3. A better price

Canadian banks traditionally trade for about two times book value (the value of their assets minus their liabilities), which today may be a bit expensive given the threats they face.

Meanwhile, Manulife has better growth prospects, and doesn't face the same capital issues it once did. Yet its shares trade at only 1.4 times book value. In my opinion, this is a bargain.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:MFC (Manulife Financial Corporation)
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