Should Investors Buy Manulife Financial Corp.?

Description

The insurance business can be both a risky and profitable business for investors. On one hand, the insurance company takes in money from millions of people and then uses that money to make smart investments. It is one way that Warren Buffett used to build his business into such a behemoth. On the other hand, in times of crisis, the insurance business can be risky. It has to pay out based on the contracts it has.

Manulife Financial Corp. (TSX:MFC)(NYSE:MFC) got hurt badly in the financial crisis. It was forced to dilute investors to raise $2.5 billion, and it had no other choice than to cut the dividend right down the middle. If you had bought shares of the company before the crisis, you might very well have watched those shares lose 75% of their value.

Fortunately, management has done a great job and turned things around. In September 2014 Manulife agreed to buy the Canadian operations of **Standard Life Plc** for $4 billion. This catapulted it to a much greater market share in the group pension sector, an area that Manulife had been targeting.

But Manulife hasn't stopped in just Canada. It also has a U.S. division that goes by the name John Hancock. This offers 401(k), life insurance, mutual funds, and other financial instruments for investors in the United States. To help bolster John Hancock, it acquired the retirement plan services operations from **New York Life**, which adds $56 billion in assets under management.

The big focus for Manulife is now Asia, which makes sense. It has a fast-growing middle class that is looking for new investment vehicles that will ensure that they have the money required to retire when they reach the appropriate age. Manulife generates nearly half of its insurance sales and a third of its earnings from Asia. And there's a good chance the company is just getting started.

It recently completed a $1.2 billion deal with Singapore's **DBS Group Holdings Ltd.**, which gives Manulife exclusive rights to the wealth management products and insurance that are offered to DBS clients across Asia. In other words, Manulife can get to these customers before anyone else during the 15-year deal.

To get an idea about how well the company is doing, just look at its third-quarter results. Core earnings in Asia increased by 30.4% to $356 million. The U.S. division was up 14.9% to $393 million. Finally, the Canadian division was up 39.1% to $338 million.

Fortunately for new investors, the market has remained unsure about how to handle these results. My belief is that at approximately $21 a share, this stock is an absolute steal. I see little reason why the company won't be able to continue experiencing tremendous growth over the next few years. Further, because of a generous dividend of $0.17 per quarter, the 3.21% yield gives investors the chance to generate income while waiting for the stock to rise. If you're waiting on the sidelines, now is the time to buy shares.

CATEGORY

1. Investing

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1. Editor's Choice

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