Why I Just Added Manulife Financial Corp. to My Watch List

Description

Manulife Financial Corp. (TSX:MFC)(NYSE:MFC) reported very disappointing results for the fourth quarter of 2015, and the company also announced that 2016's goal of $4 billion in core earnings may be out of reach. In response, the company's shares are down by about 10% as of this writing.

While the results don't look good, Manulife's share-price drop seems very harsh. And for that reason, I have added the stock to my watch list. I explain why below.

Energy investments have hurt

Manulife's disappointing numbers were mainly due to the decline in energy stocks, which shouldn't surprise anyone. All throughout last year CEO Donald Guloien was confidently predicting that oil prices could not stay this low forever and that energy stocks represented a tremendous opportunity.

All in all, energy investments shaved $250 million off Manulife's net income for the fourth quarter and $876 million for the year. The company also said that energy prices need to rebound for the $4 billion core-earnings goal to be reached.

Results are otherwise solid

Once you look past the energy losses, Manulife had a solid year. The company earned $3.4 billion in core earnings in 2015, driven largely by insurance sales in Asia, which increased 28%. Manulife's wealth and asset management businesses also performed admirably with net flows of $34.4 billion on the year, an increase of 88%.

The big picture

Manulife shares now seem to be very cheap. To give you an idea, the stock trades at about 0.85 times book value. This means that if the company can just earn a 10% ROE (which should be very achievable over the long term), then the stock would trade for roughly 8.5 times earnings.

Keep in mind that Manulife has a strong presence in Asia, a geography that other insurers have paid big money to enter. The company also has a very strong wealth management division. So there's no way that the shares should trade so far below book value.

Manulife seems very confident in its prospects, too. Despite the energy losses, the company increased its dividend once again, and the payout now stands at $0.185 per share, per quarter. That's good enough for a 4.8% yield. For a company with such a strong franchise as well as some big growth prospects, this looks like a bargain. It may very well be worth adding to your portfolio.

CATEGORY

1. Investing

TICKERS GLOBAL

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Date
2025/07/20
Date Created
2016/02/12
Author
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