



## Investors Should Consider Manulife Financial Corp. While it's Undervalued

### Description

Ever since I learned about Warren Buffett and how he was able to build a huge empire by using the premiums paid to his insurance companies, I realized that it's an incredible business model and have looked for other companies that emulate it.

Insurance companies collect premiums and then use that money to invest in different assets, earning a much greater return on investment than what they'll eventually have to pay out.

**Manulife Financial Corp.** ([TSX:MFC](#))([NYSE:MFC](#)) is a company that's in a similar industry as Buffett. It is the largest insurance company in Canada and has operations in the United States and in many nations in Asia. And these divisions are experiencing solid growth.

In Asia, its wealth and asset management gross flows increased by 56%, while its insurance sales increased by 28%. Part of what's driving this growth is a series of smart deals the company has made. First, it acquired Standard Chartered Bank's pension business in Hong Kong, giving it access to lucrative fees. Further, it will be an exclusive partner to the bank when selling insurance and wealth management products.

It also signed a separate exclusive deal with DBS Bank Ltd., which has operations in Singapore, mainland China, Indonesia, and Hong Kong. Both of these deals are for 15 years, which gives Manulife an opportunity for tremendous growth.

Its operations in the United States (through the John Hancock Financial brand) is also growing nicely. Specifically, its mutual fund gross flows increased by 14%. It's also launching multiple new ETFs, which it can charge fees on.

All told, the company is firing on all cylinders except for one...

It, like most investors, has been severely beaten down by the drop in oil and gas prices. The company announced its net income had declined by 37% to \$2.2 billion. Everything but its gas and oil sector did well, but that sector really held the company back. Further, unless energy prices really start to rise (and they have been rising slowly), I expect that earnings are going to continue staying very low.

Fortunately, this pain the company is feeling is entirely short term. Investors can rest easy knowing they're getting a yield of 4.15%. That means that its quarterly payment is \$0.185, which, if we look at its payout ratio, is a comfortable 44%. So long as the company keeps earning money, that dividend will remain safe.

But here's what really excites me ... two years ago, the dividend was 42% lower. However, because of how strong earnings had been, the company hiked it considerably. Therefore, investors should expect that the dividend will grow going forward, though it is likely to be at a much lower rate.

The reality is, Manulife is currently undervalued due to its poor 2015 results. And so long as the price of energy stays low, I expect the company to continue to suffer. However, investors can acquire these shares at a discount and start enjoying the benefits of the lucrative dividend. And when energy prices rise, the stock will most definitely follow, giving investors solid capital gains.

## CATEGORY

1. Dividend Stocks
2. Investing

## POST TAG

1. Editor's Choice

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1. NYSE:MFC (Manulife Financial Corporation)
2. TSX:MFC (Manulife Financial Corporation)

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