Why Manulife Financial Corp. and TMX Group Limited Have Moved Over 4%

Description

Manulife Financial Corp. (TSX:MFC)(NYSE:MFC) and **TMX Group Limited** (TSX:X) released their second-quarter earnings results in the last 24 hours, and their stocks have each responded by moving over 4%. Let's take a closer look at each company, their results, and the fundamentals of their stocks, so you can determine if you should invest in one of them today.

1. Manulife Financial Corp.

Manulife is one of the world's leading providers of financial products and services, including insurance, financial planning, and wealth and asset management solutions for individuals, groups, and institutions. It operates as John Hancock in the United States, and Manulife elsewhere.

In its second-quarter earnings report released this morning, Manulife reported a 7.7% decline in core earnings to $833 million, a 9.1% decline in core earnings per share to $0.40, and a 140-basis-point decline in core return on equity to 8.4% compared with the second quarter of 2015. The market has responded to these very weak results by sending its stock more than 4% lower in early trading.

Although I think the post-earnings drop in Manulife's stock is warranted, I also think it represents a great long-term buying opportunity for two fundamental reasons.

First, it's now wildly undervalued. Manulife's stock now trades at just 9.2 times fiscal 2016's estimated earnings per share of $1.87 and a mere 8.2 times fiscal 2017's estimated earnings per share of $2.09, both of which are very inexpensive compared with its five-year average price-to-earnings multiple of 22.9. These multiples are also very inexpensive given its estimated 13.6% long-term earnings-growth rate.

With the factors above in mind, I think its stock should trade at 10 times this year's earnings estimates at the very least.

Second, it has a great dividend. Manulife pays a quarterly dividend of $0.185 per share, representing $0.74 per share on an annualized basis, which gives its stock a very high yield of about 4.3% attoday's levels, and this yield is supported by its net earnings.

Investors must also note that its two dividend hikes since the start of 2015 have it on pace for 2016 to mark the third consecutive year in which it has raised its annual dividend payment, making it both a high-dividend and dividend-growth play.

2. TMX Group Limited

TMX Group Limited operates cash and derivative markets for multiple asset classes, including equities, fixed income, and energy. It also provides clearing facilities, data products, and related services to the international financial community.

In its second-quarter earnings report released after the market closed yesterday, TMX reported an 8.9% increase in revenue to a record $194.6 million, a 32.3% increase in adjusted net earnings to a record $1.23 per share, and a 35.6% increase in operating income to $85.7 million compared with the second quarter of 2015. The market has responded to these incredibly strong results by sending its stock over 4% higher in early trading.

I think the rally in TMX's stock is warranted, and I think it's still a great buy today for the same two fundamental reasons as Manulife's.

First, it's still trading at attractive valuations. TMX's stock still trades at just 15.6 times fiscal 2016's estimated earnings per share of $3.92 and only 14.3 times fiscal 2017's estimated earnings per share of $4.27, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 20.6. These multiples are also inexpensive given its growth rate, including its projected 8.9% growth in 2017.

With these factors in mind, I think its stock could easily trade up to 18 times this year's earnings estimates.

Second, it has a great dividend. TMX pays a quarterly dividend of $0.40 per share, representing $1.60 per share on an annualized basis, which gives its stock a solid yield of about 2.6% at today's levels, and this yield is supported by its operating cash flow.

Investors must also note that it has maintained this annual rate since 2011, and its increased amount of operating cash flow, including its 15.2% year-over-year increase to $153.8 million in the first half of 2016, could allow it to continue to do so going forward or allow it to announce a significant hike in the very near future.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:MFC (Manulife Financial Corporation)

2. TSX:MFC (Manulife Financial Corporation)
3. TSX:X (TMX Group)

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jsolitro