



Top Portfolio Manager Ups Stake in Manulife Financial Corp.: Should You?

Description

Most of the big Canadian insurance companies are having a bad year on the TSX, and nowhere is that more apparent than at **Manulife Financial Corp.** ([TSX:MFC](#))([NYSE:MFC](#)), whose stock is down 14.3% year-to-date. Not everyone, however, is losing sleep over its lack of performance.

Lincluden Investment Management added to its position in the second quarter and now holds almost two million shares in the insurer, making Manulife its third-largest position. Clearly, the investment professionals at Lincluden are bullish on Manulife's future; the question is if you should be too.

Manulife is a global financial services company with almost US\$700 billion in assets under management and 20 million customers operating in Canada, the U.S., Asia, and elsewhere. While it's one of the top 10 life insurance companies in the world, its wealth management business has become a very important component of its business model—a trait that's pretty common to insurance companies looking for growth.

It generates revenue both from the sale of insurance products in the form of premiums, but also from investment-management fees generated by its global wealth management platform. In recent years it's pushed toward a more holistic relationship with its customers that isn't just about protecting one's assets, but also about growing them.

Manulife managed to increase its core earnings in 2015 by 19% to \$3.4 billion on \$45.5 billion in revenue. Despite setbacks in net income due to investment-related mark-to-market losses in the oil and gas industry, 2015 was generally a good year for the company. As business models go, its push into Asia and wealth management should continue to deliver future growth in terms of revenues and earnings.

Manulife is currently undervalued, especially in the context of its historical trading patterns. It's down 60% from its all-time high of \$44, a level hit in November 2007 just before the financial crisis. Things have not been kind to Manulife shareholders over the last decade with an annualized total return of -3.8%, 892 and 199 basis points worse than the TSX Composite Index and life insurance peers, respectively.

Yielding 4.1% at the moment with all the major valuation metrics (P/E, P/S, P/B, PEG) pointing to a stock that's reasonably cheap, it's easy to see why Lincluden has taken a shine to Manulife at a time when markets here and in the U.S. appear to be quite frothy, if not overdone.

Although Manulife's Q2 2016 earnings weren't the greatest—core earnings were \$833 million, a decline of 7.7% year over year—it did manage to spread them almost evenly in thirds between Asia, U.S., and Canada. The work it's done in Asia is starting to pay big rewards.

In terms of the products, insurance delivered \$557 million in core earnings in Q2. Its wealth and asset management business contributed another \$152 million and its "other wealth" segment, which encompasses annuities and segregated funds, chimed in for the remaining \$352 million. If you consider "other wealth" a part of wealth and not insurance, which is debatable, the split between insurance and wealth is now almost 50/50.

Currently trading below \$18, value investor John Lawlor recently wrote on *Seeking Alpha* that in the past two years Manulife's stock has traded below \$20 on six occasions; every time it did it had a 9% bounce. I'm not a technical analyst, but I do believe trading patterns can form. Barring something unforeseen on the economic front, a 4.1% yield is a nice reward for buying a stock at a reasonable price.

However, there's a downside.

As big insurance companies go, I tend to like what **Sun Life Financial Inc.** ([TSX:SLF](#))([NYSE:SLF](#)) has done in [wealth management](#) more than what's happening at Manulife. That's a personal thing, and I'm sure the investment team at Lincluden would probably disagree. While Manulife made a big splash when it bought Standard Life Canada, Sun Life has made less obvious, but no less useful, acquisitions both here and in the U.S.

Sun Life's yield is slightly lower than Manulife's at 3.98%, and its valuation slightly higher, but if you're considering one, realistically, I think you have to consider the other.

Bottom line

I'd buy Sun Life at this point, but Manulife is definitely the value play of the two.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:MFC (Manulife Financial Corporation)
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3. TSX:SLF (Sun Life Financial Inc.)

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Date

2025/08/27

Date Created

2016/09/08

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