



Manulife Financial Corp.: Does it Fit in Your Portfolio?

Description

Warren Buffett is an amazing investor, and there's no denying that he is at the top of the pyramid when it comes to making good moves. A big reason he has been able to achieve greatness is due to something called "float."

For insurance companies, float is the money that is collected but not immediately redistributed back to its customers. As Buffett writes in **Berkshire Hathaway Inc.'s** 2015 annual report, "insurers get to invest this float for their own benefit."

In 1970 the company had \$39 million in float. Fast forward 20 years and it had \$1.6 billion. And finally, in 2015 it had \$87.7 billion in float. This is money that the company can invest in other assets and investments, allowing it to continue growing stronger.

Manulife Financial Corp. ([TSX:MFC](#))([NYSE:MFC](#)) is another insurance company that, although not as large as Berkshire, operates under a similar model. It sells its insurance products, and so long as it is able to keep a positive float, it can invest those funds and bring in even *more* money. And for the most part, it is doing an okay job.

Its second-quarter earnings resulted showed that its profits from sales of insurance products was \$557 million, which is a 10% improvement. It had 30% of this growth come from Asia and 23% came from Canada. Frustratingly, its U.S. operations actually saw a 19% drop in profitability, which management blamed on higher than expected claim costs. Manulife is reviewing its actuarial assumptions and will be increasing premiums if need be to offset these problems.

And the thing is, I don't expect sales numbers to slow down. I've been a firm believer that for Manulife to truly succeed, it needs to continue investing heavily in Asia, and it hasn't disappointed me. In January Manulife signed a 15-year partnership with DBS Bank to become its key provider of insurance products. On August 15, it signed a similar deal with FTB Bank in Cambodia. This means it will be selling to customers in Cambodia, Indonesia, Singapore, China, and Hong Kong.

About a year ago, Manulife acquired the pension business from Standard Chartered Bank, becoming the exclusive insurance provider to one of Hong Kong's oldest banks for the next 15 years. In many

parts of Asia there is a rapidly developing middle class that's going to be looking for ways to preserve wealth. Investing in solid insurance is one way, so I expect Manulife to continue seeing growth in its sales.

The real problem for the insurance company is that its investment returns are weak. Donald Guloien, CEO of Manulife, blames market volatility and low interest rates for the drop in investment earnings. While the company earned \$833 million in core earnings, this was down 7.7% from the year prior. It's hard to predict where things will go from here, but so long as insurance sales stay strong, the company can handle a weaker than expected investment division.

The good news for investors is that it pays a 4.06% yield with \$0.185 per share distributed on a quarterly basis. And despite earnings being cut some, it has more than enough to cover the dividend, so there are no concerns that income will drop. And so long as its sales continue to grow, I expect the dividend to increase quite handsomely.

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1. Investing

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1. Editor's Choice

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