Why Manulife Financial Corp. Could Outperform in 2017

Description

Manulife Financial Corp. (TSX:MFC)(NYSE:MFC) has been a tough stock for long-term investors to own, as the stock price fell over 20% from its peak last summer. I believe Manulife is one of the most undervalued stocks on the TSX in the current low interest rate environment.

The company has a very solid 3.9% dividend yield, which income investors can feel safe owning. I believe that investors are overly fearful of Manulife, despite it being one of Canada's biggest and most trusted names in the insurance field.

What happened to the stock, and where is it heading?

It's no mystery that the dividend got slashed in half during the financial crisis of 2008. Investors responded by selling the stock, and the price hasn't even come close to recovering over eight years later. Manulife made some poor risk-management decisions before the height of the financial crisis, and the result left investors with a bad taste in their mouths.

I believe the same dividend cut will not occur if another crisis were to happen, as Manulife looks to be a better manager of risk now. Manulife's payout ratio is higher than it was before the financial crisis. Investors can expect dividend raises going forward as interest rates start to rise over the next few years, which will be a tailwind for Manulife as well as other insurers.

International growth also continues, and the company is introducing a rewards program to reduce its customer insurance claims.

International growth to continue

Since the financial crisis, Manulife has made terrific investments in Asia as well as the United States to become a more internationally diversified provider of insurance and financial services. Manulife has 37% of earnings coming from the U.S. with 32% coming from Asia and 31% coming from Canada.

Manulife will continue acquiring other smaller insurers and wealth management firms going forward in order to increase its international exposure even more.

Manulife is a terrific pick for investors looking to gain global financial exposure, and it looks to be a steal at current valuations.

Investing in customers' ability to improve their health

Manulife has been investing in ways to improve its customers' lives while simultaneously reducing its own financial liability. Manulife has invested in a rewards program which tracks a customer's fitness and provides benefits to customers who show that they can live a healthier lifestyle. With healthier customers comes fewer insurance claims, which benefits both the customer and the company.

I believe this investment is one that will pay itself off as the program matures going forward.

Valuation and conclusion

Manulife is a terrific value play, turnaround play, and a dividend play that investors can feel comfortable holding in their TFSAs. The P/B is at one with a P/S of 0.6 and a P/CF of 3.2, all of which are lower than their five-year historical average values of 1.2, one, and 3.7, respectively. This means Manulife is undervalued based on most traditional valuation metrics.

The dividend yield is also 0.4% higher than average at 3.9%, so investors looking to add international financial exposure will do very with Manulife over the next few years as interest rates start going up. Until then, collect the dividend and sleep comfortably, as the stock has a significant margin of safety at current levels.

CATEGORY

1. Investing

TICKERS GLOBAL

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Date
2025/09/11
Date Created
2016/11/03
Author
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