



Why President Trump Could Be Good News for Manulife Financial Corp.

Description

Although it looked like president-elect Donald Trump would be bad news for stock markets, the opposite has happened. The market is up comfortably since that fateful day with the exception of a few notable names.

Investors are scrambling, trying to guess the consequences of a Trump presidency on their holdings. Shares of gun stocks have cratered, as investors speculate a Republican president will remove any urgent need to buy guns. Prison stocks, meanwhile, headed higher since a big part of Trump's campaign talked tough on crime.

One of the big winners has been the financial sector, specifically banks and insurance companies. Trump plans to spend billions on infrastructure and other government programs. This will inevitably lead to inflation, which would mean higher interest rates.

That's good news for banks, since they work on something called net interest margin. That's the difference between what it costs to get capital and the rate a bank can lend it to customers. As rates get higher, so do net interest margins. Banks make more money without doing anything differently.

It's also helpful for insurance companies. Here's why Canada's **Manulife Financial Corp.** ([TSX:MFC](#))([NYSE:MFC](#)) could be a big winner.

The insurance model

The business model for almost every insurance company is the same.

The company continually collects premiums from customers and periodically pays out claims. These premiums are invested in the meantime, usually in ultra-safe securities like government and high-grade corporate bonds.

As interest rates went down, it became more difficult to get reasonable returns on investment in bonds. To compensate, insurers did a few things. They cut costs. Assets were shifted into riskier asset classes like preferred shares, equities, and real estate, although the majority of capital still found its way into

fixed income. And they also increased prices on new policies.

These were all decent moves, but they would pale in comparison to a wholesale increase in interest rates.

Manulife currently has more than \$328 billion invested. Some \$205 billion of that is in either government or corporate debt with the majority stashed in AAA or AA rated securities. These offer great security but unattractive income.

Say rates increase 1%. That would translate into increased profits of more than \$2 billion, although that would be offset by increased borrowing costs. It would also take a few years for earnings to really pick up, since the company's debt holdings are laddered. They all don't come due at once.

Other good things

Manulife just released third-quarter results that were buoyed by impressive results out of its Asian division.

Results from the continent were up 16.6% versus the same period last year. U.S. operations were also up handily. Quarterly earnings hit \$0.49 per share, easily surpassing analyst expectations of \$0.44.

Analysts are bullish about the next year too. They expect the company to post 2017 earnings of \$2.13 per share—a significant improvement versus earnings over the past year, which came to \$1.51 per share.

Manulife has also done a nice job diversifying away from insurance through its wealth management subsidiaries. It manages \$525 billion of other people's money—an improvement of 11% versus the same quarter last year.

Manulife also pays an attractive dividend and has a history of growing that payout—at least since it slashed the dividend by 50% in 2009. The current yield is 3.2%.

Finally, the company is still quite cheap when compared to peers. It trades at just over book value, while major rivals **Sun Life Financial** and **Great-West** trade at 1.6 and 1.8 times book value, respectively. It also trades at a lower earnings multiple than its two rivals on both a trailing and forward basis.

The bottom line

Manulife has underperformed its rivals for years now. That looks poised to change. Don't be fooled by the big 20% move in the last week. Manulife still has plenty of potential to head higher.

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Author

nelsonpsmith

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