



Is Manulife Financial Corp. Worth Considering?

Description

There are few business models as lucrative as the insurance business. Hundreds of thousands of individuals pay premiums to a central entity and then when they need the insurance, the central entity pays out. Let's say there are 1,000 people and each pays \$10 a month; so long as the amount the insurance company has to pay out is less than \$10,000, it has what's known as a "float."

Float is the magic word for insurance companies and is one of the ultimate reasons that Warren Buffett is worth tens of billions of dollars. Insurers can use the float to invest in other assets, such as stocks, bonds, real estate, and other alternative investments. Consider the float numbers for **Berkshire Hathaway Inc.** (NYSE:BRK.A)(NYSE:BRK.B). In 1970, it had US\$39 million in float. In 1990, it had US\$1.6 billion. In 2015, that float was US\$87.7 billion. Is it any surprise that Buffett is so rich?

Manulife Financial Corp. ([TSX:MFC](#))([NYSE:MFC](#)) operates with the exact same business model. Customers that are worried about their families buy life insurance products, and so long as the actuaries at Manulife plan correctly, Manulife can take the surplus float and invest it to bring in significant income from investments. The good news for investors is that Manulife is doing a great job.

In Q3, it had common share net income of \$1.083 billion, which was up from \$593 million year over year. According to its press release, "the increase in net income attributed to shareholders was primarily due to invest-related experience gains..." Said another way, it picked the right investments.

Another big reason it was able to experience this sort of profitability was thanks to the growth in its different sales products. It had a little over \$1 billion in insurance sales—up 20% from the \$803 million it sold in the previous year. And while its wealth asset management net flows were down 42% to \$2.7 billion, its gross flows improved by 6%, and its assets under management and administration increased by 9% to \$966 million.

A big part of this growth comes from Asia. In Q3 2015, it had \$496 million in insurance sales in the continent. This quarter, that grew to \$685 million, and there no one expects this growth to slow down any time soon. That's because there are trillions of dollars that will need to be passed down to the next generation in the coming decades, which will require the financial products Manulife offers.

But what about the future?

One quarter of solid growth does not make a company worth considering. We have to determine whether or not the company will continue to generate outsized returns.

Many analysts are concerned that equities are continuing to go higher with no fundamentals to support it; a company like Manulife could get hurt from its investments. But there are analysts that believe interest rates are going to be increased primarily because the U.S. economy is strong. Since Manulife invests in government bonds, any uptick in interest rates could have a material impact on the company.

Frankly, my stance on Manulife is pretty clear. In the long term, the company should continue to create lucrative returns primarily because it is investing with that float. So long as it can be smart with its premiums, I see no reason Manulife can't go higher. And with a \$0.185 per share dividend, the 3.2% yield is certainly worth owning shares.

CATEGORY

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2. NYSE:BRKA (Berkshire Hathaway Inc.)
3. NYSE:MFC (Manulife Financial Corporation)
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