

Manulife Financial Corp.: You Should Own This Stock

Description

Insurance has one of the most fascinating business models and it's often very misunderstood. But it's a business model that made Warren Buffett one of the richest people in the world, giving his firm the opportunity to rapidly grow and acquire entire businesses.

Here's how it works.

An insurance company signs up 10,000 customers who pay a monthly fee to the company called the premium. Let's say it collects \$100 per customer, earning \$1 million a year. In any given month, the company might have to pay out claims to those customers. So long as the insurance company does its math correctly, it'll pay out less to the customers than it earns. The difference between the premium and the payout is the float, which can be invested in whatever the company wants.

With that understanding, it's clear why I believe you should own **Manulife Financial Corp.** ([TSX:MFC](#))([NYSE:MFC](#)). Manulife is not just an insurer; it offers a wide variety of financial products that customers clamour for. All in all, there are many reasons to buy shares of Manulife.

Manulife is experiencing record growth in Asia. While it is the largest insurer in Canada and it has a strong hold in the United States through the *John Hancock* brand, Asia is bound to be the biggest market. With a rapidly evolving middle class, customers are looking for ways to preserve their wealth, which is exactly what financial and insurance companies provide.

In its full-year 2016 results, Steve Roder, chief financial officer, said, "In Asia, we achieved a 29% increase in APE sales compared to 2015, and a 35% increase in new business value, which speaks to the quality of sales we generated." This means that the company had a 29% increase in annual premium equivalent, which is incredibly significant.

The way Manulife achieved this is through a series of partnerships with institutions like Standard Chartered Bank, DBS Bank, and FTB Bank. Essentially, Manulife signs exclusive partnerships with these Asian banks to sell insurance products to the bank's clients for 10-15 years. Being the "bank-recommended" insurance product gives Manulife a big leg up over other financial companies.

These relationships have also created the potential for Manulife to raise debt quite easily. In May 2016, it raised US\$470 million by selling 10-year subordinated notes in Singapore, the first foreign insurance raise in the country. In June, Manulife raised US\$1 billion in the Taiwanese market, and in December, it raised US\$270 million in the Asian market. All of this wouldn't have been possible without a strong foothold.

And if we look at the Manulife's earnings, it's clear that things are getting stronger. The company hit its core earnings' target of \$4 billion — up 17% year over year — with \$2.9 billion in net income — up 34%. The company is still dealing with weaker energy markets, which cut heavily into profits, but things are getting much stronger for the company. And with interest rates on the rise, I expect to see its

earnings increase even more.

All in all, Manulife is a great opportunity for those that recognize the value of insurance float. I expect Manulife to continue experiencing smart growth as it expands more in Asia.

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