



Manulife Financial Corp.: Will 2017 Continue 2016's Success?

Description

As the Chairman of **Manulife Financial Corp.** ([TSX:MFC](#))([NYSE:MFC](#)) said in the 2016 annual report, "If I were to put a title on this letter, it would perhaps read "Navigating Rocky Roads and Rough Seas," as it was in many ways a wildly unpredictable year full of boulders and big waves."

But as the year came to a close and we looked back at the full year 2016, it was actually a pivotal year that saw it beat out 2015. And, although we won't know Q1 2017 numbers until May, I believe that the company is primed to continue growing quite aggressively.

2016 was, in some part, the "year of Asia" for Manulife because it was able to make a series of very smart deals that should have a material impact for quite some time. The two major ones were the exclusive partnerships signed with DBS out of Singapore and Standard Chartered in Hong Kong. For the next 10-15 years, Manulife will be the go-to insurance provider for the bank's customers, which should funnel quite a bit of business.

And already, we see that paying dividends. Insurance sales in 2016 were up 11% versus 2015, thanks to a 27% year-over-year boost in Asia. This is compared to a 16% drop in Canada and a 6% drop in the United States. And core earnings in Asia grew to \$1.495 billion from \$1.234 billion in 2015.

Another benefit of building its Asian business is the introduction to quite a bit of debt capital. In 2016 alone, it raised over US\$1.6 billion. The US\$470 million it raised in Singapore in May 2016 was the first foreign insurance raise in the country, so this demonstrates just how lucrative these exclusive partnerships have been for Manulife.

Looking at the company as a whole, core earnings hit the company's goal of \$4 billion, up 17% from the previous year. And net income was up 34% to \$2.9 billion. The only negative for the company is that it had made large investments in the energy sector that held profits back (and it still had net income up 34%).

So what about 2017?

We'll learn more in May, but if I had to predict, Asian insurance sales will continue to be strong with

these exclusive partnerships continuing to generate lucrative returns for the company. Many major Asian economies have incredibly fast growing middle classes. Insurance and investment products, which are exactly what Manulife has to offer, are precisely what a growing middle class wants.

I also expect to hear good news on the investment front for two reasons. First, energy prices are increasing, which should help some of its investments increase in value. And second, with interest rates in the United States starting to increase, I expect this to have an impact on investment earnings. The reality is that these companies hold quite a bit in treasury bonds because of the ease of liquidity.

All of this should make it possible for Manulife to increase the dividend again in 2017. Over the past three years, the dividend has increased, cumulatively, by 58%. With dividend increases three years running and earnings expected to increase again, I see little reason not to expect another one.

Manulife is a great business that has been making smart investments in core regions of the world. I expect this company to continue generating large returns as these markets continue to mature, making this a great investment for any investor.

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