Why Manulife Financial Corp. Should Be a Core Holding

Description

Manulife Financial Corp. (TSX:MFC)(NYSE:MFC) has long been considered a great option for investors looking to diversify their portfolios with a company from the insurance sector.

Manulife is a great investment for several reasons, but first, let's take a moment to shed some light on the often-misunderstood insurance business model.

Insurance customers pay premiums to the insurer, which, in turn, pays out claims to customers when required. As long as the claims that are paid out to customers amount to less than the premiums the insurer receives, the insurer comes out on top.

That difference between the premium and claim is what insurers refer to as the float, and insurers like Manulife will typically invest that float to realize even more revenue, using it to fuel even more growth.

Manulife has plenty of growth opportunities

As the largest insurer in Canada, Manulife counts one in three Canadians as clients. This is no simple feat, but it does expose the company to the increasingly saturated Canadian market. Realistically, how many more products can Manulife sell to its mature audience in Canada?

Manulife realized this and expanded into other markets. In the U.S., Manulife operates under the John Hancock brand, but the Asian market remains by far the most lucrative sector of Manulife's global portfolio.

Asia is currently undergoing the largest explosion of wealth ever seen; experts speculate the current generation will pass down over a trillion dollars to an emerging class of consumers that are hungry for the products Manulife can offer.

Manulife’s expansion is negotiating deals with local banks in Asian markets which agree to exclusively sell Manulife insurance products to their customers. This model has proven extremely successful; Manulife has agreements with institutions such as DBS Bank, Standard Chartered Bank, and FTBbank that can span up to 15 years.

Just how successful has Manulife’s Asian venture been? Sales in the Asian market realized 27% year-over-year gains with core earnings from the Asian market coming in at $1,495 million for 2016 fiscal, representing a sizeable increase over the $1,234 million posted in 2015. By way of comparison, both the Canadian and U.S. markets contracted during 2016 by 16% and 6%, respectively.

What about a dividend?

Manulife provides investors a quarterly dividend of $0.205 per share. At the current price, the dividend amounts to a respectable yield of 3.44%.

Over the past three years, that dividend has grown by nearly 60%, and given the continued performance expectations for the Asian market, additional dividend growth this year is not out of the realm of possibility.

Where Manulife’s dividend really starts to shine is when factoring in the growth of the stock over the past few years. Over the past year, Manulife has surged 26%. When looking over an even longer time frame, Manulife’s stock price has increased over 75% in the past five years.

In my opinion, Manulife remains a great investment opportunity for those investors looking for both income and long-term growth.

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