



Does Manulife Financial Corp. Deserve to Be in Your Portfolio?

Description

Being in the insurance business can be an incredible way to generate strong returns. Take Warren Buffett as an example. He built his entire empire on the back of the insurance business.

One viable option is **Manulife Financial Corp.** ([TSX:MFC](#))([NYSE:MFC](#)), which is the largest insurance provider in Canada, providing some type of financial product to one in three Canadians. While Manulife's bread and butter is the insurance business, it's actually a fully integrated financial services company, offering retirement products, investment vehicles, and other opportunities.

I last wrote about Manulife in April, and I predicted that the "year of Asia" for Manulife would be strong, pushing the company to greater profits.

According to the earnings report, Manulife saw a 31% increase in annualized premium equivalent sales compared with Q1 2016. And with a 53% increase in new business value, it's clear that the growing middle class in Asia is turning into a strong business for Manulife.

I called 2016 the "year of Asia" because Manulife signed a series of very smart deals that are going to continue driving the business. It has exclusive partnerships with DBS out of Singapore and Standard Chartered in Hong Kong to be the go-to insurance provider for 10-15 years. Any time a customer asks a sales rep in one of those banks about insurance, it's Manulife products being pitched.

The other benefit of having a strong presence in Asia is the ability for Manulife to raise debt capital. In 2016, it had a series of offerings that resulted in over US\$1.6 billion. It also was the first foreign insurance raise in Singapore, raising US\$470 million in May 2016.

The fact that it's not just its Asian division, but the company at large that is executing rather efficiently is a big win for the company. Manulife reported net income of \$1.35 billion in Q1 2017 compared to \$1.045 billion in Q1 2016. Its return on equity improved to 13.7% from 10.8%.

Its U.S. division generated the largest amount of core earnings, bringing in \$515 million compared to \$389 million a year prior. Asia brought in \$408 million compared to \$371 million. And finally, the Canadian division saw a small drop from \$338 million to \$319 million.

Does Manulife deserve portfolio exposure?

Manulife is an interesting business, and it has done an exceptional job at turning things around from where it was a couple of years ago. There are a few things to consider when making an investment.

First, the company is getting more generous with its dividend. It currently pays a quarterly dividend of \$0.205. Over the past three years, the company has increased the dividend by 58%, so there's obviously growth there.

Second, it's current price-to-earnings is 15.62, which might be a little high in a normal economy, but with where equities are trading, this is pretty cheap. And when looking at future earnings, the P/E is rather cheap.

I think buying Manulife is a smart investment. The company is executing in multiple markets, but, most importantly, its Asian business is growing fast. And with it recently crossing \$1 trillion in assets under management, the company is in a great position to continue growing earnings.

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