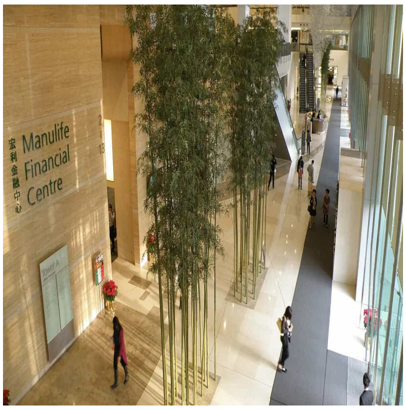


# Buy Manulife Financial Corp. Before John Hancock Is Exited?

## Description

**Manulife Financial Corp.** (TSX:MFC)(NYSE:MFC) has seen some very impressive growth from its Asian and Canadian businesses; however, John Hancock continues to be a major drag thanks to its low ROE nature.



There have been many rumours flying around that the John Hancock business may be spun off, but should investors who are bullish on Manulife's Asian or Canadian businesses be jumping into the stock before such a John Hancock spin-off occurs? Or will John Hancock continue to dampen the success of Manulife's other segments over the long term?

Many investors are pushing the management team to get rid of the John Hancock business pronto. It's an incredibly capital-intensive business with a meagre ROE compared to Manulife's Canadian or Asian businesses. We can only speculate on what management will do with John Hancock at this point; however, if it's spun off or sold, shares of Manulife would likely soar following such an announcement.

Manulife's ROE has sat at 9.3% over the last year thanks mostly to John Hancock's low ROE contributions. If John Hancock is exited, this ROE is likely to shoot up to the high double digits, and the stock could be on a major rally upward. But don't expect a John Hancock spin-off or sale anytime soon. Management has been exploring its options, but if nothing makes sense, such a major move won't get done, at least in the near term.

I'd never recommend buying shares of a company based solely on a speculative event that may or may not happen, but I believe it does make a lot of sense to own Manulife for the long term at this point, since it's trading at an attractive valuation, and the 3.32% dividend yield is really solid with room to grow further in the coming years, with or without John Hancock.

Even if Manulife can't get rid of the John Hancock business, you'll still get a great dividend-growth stock that'll ride the medium- to long-term tailwind of rising interest rates. Manulife is arguably one of the best non-bank Canadian financial stocks out there, and I'm confident that its Asian business is going to pick up even more momentum over the next decade.

**Bottom line**

It looks like Manulife is stuck in limbo right now. On one hand, the Asian and Canadian segments are soaring, but on the other hand, John Hancock is dampening the company's overall ROE.

The general public is getting quite impatient with Manulife and its meagre returns over the past few years. The Asian business has seen extraordinary growth, but over the near term, John Hancock will likely keep Manulife shares below the $25 long-term level of resistance.

If a spin-off happens, expect a huge rally, and if it doesn't happen, you'll get a solid dividend to go with what I believe will be modest capital gains over the long term.

Shares currently trade at a 13.46 price-to-earnings multiple, a 1.2 price-to-book multiple, a 1.2 price-to-sales multiple, and a 2.7 price-to-cash flow multiple. That's a pretty cheap price to pay for a business with such a strong Asian growth profile. If you're a patient investor who isn't waiting for a John Hancock spin-off, now is a great time to buy shares.

Stay smart. Stay hungry. Stay Foolish.

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joefrenette