



Is Manulife Financial Corp. a Smart Dividend Play?

Description

Investing in dividend stocks is a time-tested strategy. But how do you identify which dividend stocks to put your money? There are obviously great ones and not so great ones. Where does **Manulife Financial Corp.** ([TSX:MFC](#))([NYSE:MFC](#)) fall on this spectrum?

I have been bullish on Manulife for some time now primarily because of its focus on the Asian market. But before we talk about that, let's look at Manulife's business model.

One of the reasons Warren Buffett has become one of the richest investors in the world is because of insurance, which is the business Manulife is in. For example, an insurer sells 100 policies to customers for \$1,000 each, earning \$100,000. During the year, the insurer pays out \$80,000 in claims. The \$20,000 difference is known as the float, and that belongs to the insurance company to do with as it pleases.

Buffett used that float to invest in amazing stocks and, when the float became large, he began buying businesses outright. Manulife operates in a similar way, generating profit on the sale of its insurance as well as the investment of its float. It's a strategy that has worked well for the company.

Manulife reported its second-quarter earnings results in August, and the numbers were quite strong. It earned \$1.255 billion in net income with a ROE of 12.4%. In the second quarter of 2016, it only earned \$704 million with a ROE of 7.1%.

A big reason for this increase in net income is the boost in investment-related gains this quarter. In Q2 2017, investment-related gains were \$292 million, up from only \$60 million in 2016. It deployed that float appropriately and is reaping the benefits now.

That's not to say sales weren't strong. In the United States, life insurance sales increased by 26%. In Canada, it had a large-case group benefits sale that added to the top and bottom lines. But it's Asia that I'm bullish on. Compared to Q2 2016, sales increased by 11% thanks to demand in Japan, Vietnam, and mainland China.

Its growth in the Asian market has been a meticulous strategy over the past few years that will pay

dividends for many years to come.

In September 2015, Manulife purchased the pension business of Standard Chartered Bank, one of the oldest banks in Hong Kong. This acquisition also made Manulife the exclusive life insurance provider to Standard Chartered clients until 2030.

In January 2016, it signed a similar 15-year partnership with DBS Bank, a Singaporean multinational financial services corporation, with exposure in China, Hong Kong, Indonesia, and Singapore. In August 2016, it expanded into Cambodia by becoming the insurance partner of FTB Bank.

With trillions of dollars in wealth expected to transfer from one generation to the next over the coming decades, these sorts of deals will be incredibly lucrative to Manulife.

All of this makes it possible for Manulife to pay out a comfortable 3.17% yield — good for \$0.205 per share every quarter. Thanks to the lucrative business model and the generous yield, Manulife carries a payout ratio of only 33%. Further, the dividend has been increased rather consistently over the past few years, rewarding long-term investors.

Is Manulife the best dividend stock? Of course not. But if you're looking for exposure to the financial services sector, Manulife is a great play.

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Author

jaycodon

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