



Manulife Financial Corp.: Should You Buy?

Description

There are two primary reasons, in my opinion, that Warren Buffett has been able to achieve as much success and wealth as he has. The first is his patience; he waits for the perfect opportunity before making a significant investment. The second reason is because of his insurance business, which gives him the ability to make significant investments when the time is right.

The insurance business is so important to Buffett's success specifically because it gives him additional resources. Using car insurance as an example, an individual pays a premium to the provider with the understanding that if there is a crash, the insurance company will pay the claim.

Let's assume you pay \$500 in a year for car insurance. You may not need a penny of it, so that \$500 goes to the company with nothing in return for you. There are tens of thousands of other customers that are also paying that may never need their insurance. The difference between the premiums collected and the claims is known as the float. And that is how Warren Buffett has been able to achieve his success. He effectively takes that free money and invests it.

Manulife Financial Corp. ([TSX:MFC](#))([NYSE:MFC](#)) operates a similar business. Manulife earns money by selling its insurance, assuming that it'll bring in more than it pays out, and then takes those profits and invests them in other assets.

And the numbers show it. In Q3, Manulife delivered \$1.105 billion in net income with a return on equity of 10.8%. Although these numbers were down just slightly from 2016, this is a quarter that dealt with one of the worst hurricane seasons of all time. If you ask me, that's a great return for an insurance company.

And if we dig in deeper, we can see where the ultimate growth for Manulife is going to come from: Asia. For some time now, [I've argued that Asia](#) is the most important region of the world for Manulife. There are billions of people that are starting to reach the middle class. Once people have more money than they need, they start planning for ways to protect it. Insurance, retirement funds, and other products — which Manulife offer — are exactly what these new customers will want.

In Q3 2017, Asian insurance sales increased by 15% compared to the previous year. Its reported

“other wealth” sales in Q3 2017 were also up 8% in Asia thanks to new premium products that it had launched. All of these sales effectively provide resources that Manulife is then able to invest in other assets.

Going forward, I expect future quarters to deliver similar results. With interest rates increasing, the billions in treasury notes that Manulife holds will generate more money for the company. Further, the market has never been so hot, so it’s expected that investment returns will be strong.

And that’s good, because Manulife is actually an appealing dividend stock. It has been consistently increasing the dividend over the past few years, and so long as net income continues to rise, I believe it’s [a smart dividend play](#). I think investors should buy and enjoy this unique business model, which has made one of the world’s richest men. But if you’re not sold, there are certainly other opportunities.

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