

Manulife Financial Corp.: Buy on the Dip?

# **Description**

The stock of Manulife Financial Corp. (TSX:MFC)(NYSE:MFC) has dipped +8% year to date and now trades closer to its 52-week low than its 52-week high. Is it a good time to buy Manulife on the dip?

Before exploring the answer to that question, let's take a quick look at the business. wat

## **Business overview**

Manulife offers financial advice, insurance, and wealth and asset management solutions for individuals, groups, and institutions.

It operates as John Hancock in the United States and as Manulife in other countries, including Canada, China, Japan, and certain Asian countries and territories, where it has been growing at a faster pace, including in Hong Kong, Singapore, Vietnam, Philippines, and Cambodia.

Around the globe, Manulife serves 26 million customers, and at the end of 2017, it had ~\$1.04 trillion in assets under management and administration, which grew 11% compared to 2016.



#### Recent results

In 2017, with the efforts of its 34,000 employees, 73,000 agents, and thousands of distribution

partners, Manulife's insurance sales increased by 23% to \$4.7 billion.

Last year, Manulife's Canadian and Asian businesses saw double-digit growth, while its U.S. sales were essentially flat. The overall growth helped its diluted earnings per share grow 13%.

## Manulife should benefit from higher interest rates

Manulife's fixed-income assets include government bonds (21% of total portfolio), corporate bonds (31%), mortgages (13%), and cash and short-term securities (5%), for example. They make up about 82% of Manulife's portfolio. So, higher interest rates should benefit Manulife.

Moreover, the tax reform in the U.S. is expected to benefit Manulife, contributing about \$240 million per year to the company's core earnings starting this year. That's about 5% of Manulife's 2017 core earnings of \$4.6 billion.

#### Dividend

At right under \$24 per share, Manulife offers a safe yield of close to 3.7%. Its payout ratio is less than 40% of its 2017 earnings. Manulife has increased its dividend for four consecutive years. Its three-year dividend-growth rate is 12.9%. The company just hiked its dividend in the first quarter by 7.3%.

With Manulife's earnings expected to continue growing ~10% per year for the next three to five years, Manulife shareholders can expect Manulife to grow its dividend at a rate of 7-10%.

#### Valuation

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The consensus from **Thomson Reuters** is that the stock is even more undervalued, as it has a mean 12-month target of \$30.90 per share on the stock, which represents almost 29% upside potential.

### Investor takeaway

Manulife's Asian businesses will continue to be its growth driver. If the company improves its U.S. business or sells its underperforming assets, it may serve as a catalyst to propel the stock higher.

Manulife currently trades at a decent discount for conservative income investors, as it offers a yield of ~3.7% and has room for price appreciation.

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- 1. Dividend Stocks
- 2. Investing

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