Manulife Financial Corp. Down 11%: Time to Buy?

Description

Finding stocks that are at the right price can sometimes be tricky. You might be ready to invest, but the price might not be right, and buying at the wrong time can hurt your returns for years to come. Just ask those who invested in internet stocks in 2000 how long it took to recover.

Manulife Financial Corp. (TSX:MFC)(NYSE:MFC) is, in my opinion, at the right price to start picking up shares. With it down 11% year to date, investors have significant upside and a strong opportunity to generate income through dividends.

Let's dive in.

Manulife is an insurance and wealth management company. It makes its money through a variety of different business lines, but one that stands out is the insurance business, specifically because of how ingenious of a business model it is.

Assume that the insurance business brings in $100 million in premiums this year, but it only has claims of $85 million. That $15 million is known as the float — money the insurance company is then able to invest.

About 82% of Manulife's portfolio is in fixed-income assets. The portfolio is broken down as such: 21% in government bonds, 31% in corporate bonds, 13% in mortgages, and 5% in cash and short-term securities. Normally, I would find this sort of portfolio boring, but there's a catalyst that should help Manulife boost its investment earnings: interest. As interest rates increase, the earnings from said bonds should also increase, providing more cash to the books.

But for Manulife to benefit from float, it needs strong growth in its insurance sales. And that's where Asia comes into the equation. In 2013, Manulife had annual premium equivalent sales of US$1.235 billion in Asia. Fast forward to 2017, and that number has grown to US$2.887 billion — a CAGR of 27%.

There's a simple reason why Asia is experiencing such growth. It has developed a middle class over the past couple of decades, so as parents age, they begin thinking about how to ensure their family is taken care of. Insurance and wealth management are tools that middle-class families use as they look for ways to pass their wealth on.

One negative for Manulife is its U.S. business. Unlike in Canada and Asia, which saw great growth, the United States business was flat. There have been rumours that Manulife may look to spin off or IPO its John Hancock brand, but nothing has come of that just yet. Nevertheless, the recent tax-reform law is expected to add $240 million to the company's earnings every year, so it's not all bad news.

Ultimately, my thesis is simple: with the Asian market continuing to deliver strong results and interest rates increasing, which should boost investment earnings, I see little reason not to own Manulife. And with it trading at a multiple of 10.6, there is considerable upside.

And the company has increased the dividend for the past four years. This year, the dividend increased by 7% to $0.22 per share per quarter, so investors are rewarded for growing with the business. All of this points to a worthy investment. I say buy.

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