
# Manulife Financial Corp. Is Among Insurers That Will Rally in a Rising Interest Rate Environment

## Description

**Manulife Financial Corp**. (TSX:MFC)(NYSE:MFC), the most undervalued of the group, has seen its stock price languish recently, coming off from highs of over $27 and settling in below $25. Its dividend yield currently stands at 3.7%.



The dividend was increased four times in the last five years, with the latest one being a 7% increase in the fourth quarter of 2017.

With Manulife, it is clear to me that the trend is up.

From a macro perspective, interest rates are rising, and from a company-specific perspective, Manulife is seeing strong growth in wealth and asset management and in its expansion in Asia.

In the first quarter of 2018, Manulife posted an 18% increase in core earnings, earnings per share of $0.64, and the company generated an ROE of 14.1%, above its targeted range and a solid improvement from prior levels.

According to Manulife, a 50-basis-point increase in interest rates would have a $100 million impact on net income and a meaningful effect on its MCCSR ratio (its minimum continuing capital and surplus requirement ratio).

**Sun Life Financial Inc.** (TSX:SLF)(NYSE:SLF) stock has been the most consistent and strongest performer, and it has a current dividend yield of 3.44%.

Sun Life's interest rate sensitivity is not as significant as Manulife's. A 50-basis-point increase in interest rates would increase net earnings by $50 million.

The company is reporting strong results out of Asia, but its wealth management business has been suffering from consistent fund outflows. And while the hope is that these outflows can be curtailed, the stock is trading at significantly higher valuations, so it is especially vulnerable should this trendcontinue.

**Great-West Lifeco. Inc.** (TSX:GWO) has a dividend yield of 4.63%, which is higher than its peers, but this reflects a riskier proposition.

The company has been plagued by net outflows in its Putnam segment, with both the mutual fund and institutional business reporting outflows, with aggregate net outflows of US$1.2 billion.

Its European operations are also struggling, and while recently integrated acquisitions can provide us with hope for the remainder of the year, the company's European operations are not off to a good start.

So, while Great-West increased its dividend earlier this year to the tune of 6%, and cost reductions are being implemented at the company, it seems that the deteriorating situation at Putnam and the stock's rich valuation relative to its peer group will put a damper on the stock price going forward.

So, in summary, while Manulife is my favourite of the group, insurance stocks in general will benefit from rising interest rates, so investors would be wise to establish a position.



**CATEGORY**

1. Dividend Stocks
2. Investing

**TICKERS GLOBAL**

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2. TSX:GWO (Great-West Lifeco Inc.)
3. TSX:MFC (Manulife Financial Corporation)
4. TSX:SLF (Sun Life Financial Inc.)

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