Manulife Financial Corporation (TSX:MFC): A Deep-Value Dividend Stock to Buy?

Description

It’s tough to get excited about insurance companies whose business is to sell car and life insurance policies. This is a business you’ve hardly heard someone bragging about at the dinner table or during a party.

But investors who don’t want surprises every morning love insurance companies that lock in customers to get regular cash flows and then use them to generate profit.

You may be surprised to know that the world’s most successful value investor Warren Buffett credits his success to his insurance portfolio. Insurance has been the main pillar of growth for **Berkshire Hathaway Inc.** since his 1967 acquisition of National Indemnity. In fact, Buffett specifically referred to the insurance industry as Berkshire’s “most important sector” in his letter to shareholders last year.

In Canada, **Manulife Financial Corporation** (TSX:MFC)(NYSE:MFC), the nation’s largest insurer, is trying to transform itself into a leaner and more efficient service provider to try to win investors’ confidence and end its stock’s underperformance over the past decade. For long-term investors, this is a good time to analyze this stock and see if there is any value to unlock.

Manulife’s transformation plan

As part of its turnaround plan, the company announced during an investor presentation this week that Manulife set a target to free up to $5 billion in capital over the next three years.

The main pillar of this strategy is to exit some business lines that don’t fit in the company’s future growth initiatives. According to some news reports, Manulife was weighing the sale of a number of U.S. insurance assets after conducting a strategic review of its U.S. operations, including its John Hancock business.

Another important part of the company’s new strategy was to cut its expenses by $1 billion by 2022. The company announced plans last week to cut 700 jobs in Canada, as it brings in more digital interaction with clients.

Investors, however, doesn't seem impressed. MFC stock is down more than 6% since June 22 and about 10% this year, despite the fact that rising interest rates bode well for insurance companies.

Manulife has been through a similar cost-cutting exercise in the past that failed to improve the share performance, which is down 40% over the past decade. This time it's probably a "show-me" moment for the company before investors get excited about the company's future prospects.

The bottom line

Manulife shares need to break out of its sluggish cycle to reward its loyal customers who have suffered during a decade-long slump. If you look at the company's valuations, they look attractive. Manulife shares are trading at just 8.38 times the forward earnings per share, which is well below the 10-year average of 10.7.

But I won't recommend you take an immediate position in this deep-value stock. For me, Manulife stock is a buy if it trades around $17 a share. You're better off to wait on the sidelines until that moment arrives. After all, the company has a lot to do in the next five years.

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