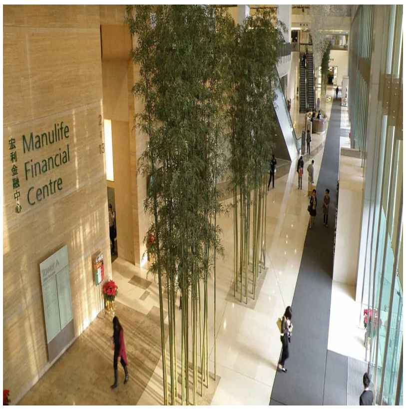

Manulife Financial Corp. (TSX:MFC) Is Far Too Cheap

Description

In a rising interest rate environment, **Manulife Financial Corp.** (TSX:MFC)(NYSE:MFC) is one of the natural places to seek shelter if you're at all worried about the implications regarding your defensive holdings like REITs, telecoms or utilities, whose dividends aren't as pretty as they were when rates were at rock-bottom levels.

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Asian growth remains impressive

The company is poised to enjoy huge growth from Asia, which is on the verge of one of the biggest middle-class booms of all time. With partnerships with various Asian financial institutions in place, Manulife is well prepared to capitalize off a generational opportunity that could finally propel Manulife stock out of the gutter it found itself in following the financial crisis.

Manulife has created a reputable name for itself in many parts of Asia and as it continues to capture a big slice of the Asian wealth management pie. I think investors ought to recognize the longer-term potential as the lower ROE businesses (like John Hancock) become less of a drag over time. Earnings from Manulife's Asian segment grew to $427 million last quarter, up 20% on a year-over-year basis. That's pretty solid growth that's probably just getting started.

Digitization efforts and cost cuts could drive major long-term earnings growth

More recently, Manulife announced its intentions to cut 700 jobs in order to become more efficient. Management expects $300 million in run-rate cost savings in 2019 and $1 billion in annual costs by 2022, most of which will likely be reinvested in digitization efforts in order to bring life insurance out of "the dark ages" as the company looks to leverage technology to its advantage.

"Our industry really, quite frankly, operates today in a very similar way to the way it operated 15 years ago." said Roy Gori, Manulife CEO. "The reality is that you have to really digitize your operations to survive in the future. For us, manual processes, or businesses that really are supported by manual processes, are ones that won't exist in five, ten, fifteen years from now."

Talk about disruptive tech! The massive cost cuts are going straight towards technological advancements. As an investor who's truly focused on the long haul, this has to be encouraging, especially when you consider how daunting it can be to file for a "16-page application form" these days. Even if one needed life insurance, one may reconsider with such a primitive outdated application process.

Bottom line

Asian growth and digitization will be the main drivers of the stock over the next decade and beyond. Sure, Manulife is cutting costs, but it's out of the best interest of shareholders for the long haul. The 9.1 forward P/E is just way too cheap for a stock of this calibre that's also getting a boost from higher rates. With a 3.72% dividend yield, I think long-term investors ought to seriously consider backing up the truck at these depressed valuations.

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