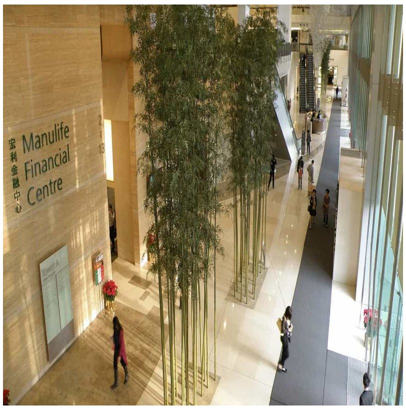

Why This Bargain Dividend-Growth Stock Can Outperform

Description

In the last five-, three-, and one-year periods, **Manulife Financial Corporation** (TSX:MFC)(NYSE:MFC) stock has underperformed **Sun Life Financial Inc.** (TSX:SLF)(NYSE:SLF). Specifically, in the periods, Manulife stock has delivered an annual rate of return of 13.5%, 4.7%, and 2.1%, respectively, while Sun Life stock has delivered returns of 16.5%, 9.8%, 4.5%.

Manulife stock has a five-year normal multiple of about 12.9, which is higher than Sun Life stock's multiple of about 12. Furthermore, Manulife stock is trading at a lower multiple than Sun Life stock. Therefore, Manulife has the potential to outperform once it gets its act together.

The business

Manulife is a financial services group which primarily operates as John Hancock in the United States and Manulife in Canada and Asia. It has about 35,000 employees, 73,000 agents, and thousands of distribution partners, serving over 26 million customers.

At the end of the first quarter, Manulife had more than $1.1 trillion in assets under management and administration. About 87% of its invested assets were in fixed income and other assets, such as government and corporate bonds, which should benefit from higher interest rates.

Manulife is revamping its Canadian business

At the end of June, Manulife announced a plan to transform its Canadian business, including improving the efficiency of its operations through technology. For this revamp, Manulife expects to reduce its Canadian workforce by about 700 to +12,300 people over the next 1.5 years.

Moreover, Manulife has been recruiting and re-training employees with the skills needed in this digital age. The skills go from "server and hosting expertise to data modelling, user interface design and user experience, in addition to customer journey experts and agile coaches and leaders."

The press release also stated, "Manulife is increasingly leveraging technology to fuel its business growth. This includes the recent launch of its Artificial Intelligence Decision Algorithm, or 'AIDA,' which makes Manulife the first insurer in Canada to use an AI tool to automatically make underwriting decisions."

How Manulife has been doing things and how it has been interacting with its customers and potential customers in Canada can change quite dramatically from this plan.

Investor takeaway

If Manulife can execute well on its plan to use technology to improve its Canadian operations, it could spur growth in the country. At about $23.60 per share, Manulife stock is far too cheap, trading at a price-to-earnings multiple of about 10.

If the stock trades at its normal multiple in the future, it'll imply price appreciation of +40%, which could be possible for two to three years down the road.

In the meantime, the A-grade stock offers a 3.7% dividend yield. Shareholders should also expect dividend-per-share increases at a rate of 7-11% for the next few years.

CATEGORY

1. Dividend Stocks
2. Investing

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