Manulife Financial Corporation (TSX:MFC) Stock Is a Bargain

Description

There's no question that **Manulife Financial Corporation** (TSX:MFC)(NYSE:MFC) stock has underperformed. In the last 12 months, the stock has declined about 4%, while **Sun Life Financial Inc.** stock has appreciated about 14%.

In September 2017, Manulife announced a number of changes, including having a bigger focus on its global wealth and asset management segment, optimizing its legacy businesses in North America, and leadership changes and promotions.

Changes

In October 2017, Paul Lorentz, who has been with Manulife since 1993 and has successfully played a number of senior roles in the company's wealth and insurance businesses, was appointed head of Global Wealth and Asset Management.

Manulife created a new senior leadership role to be in charge of the North American legacy businesses. Naveed Irshad was appointed to that role in January 2018. He has been with Manulife for 20 years with extensive experience in life insurance, product risk, and reinsurance, and he's also the CEO of Manulife Singapore.

Asia is a key growth area for Manulife. Anil Wadhwani was appointed president and CEO of Manulife

Asia in November 2017.

The press release stated he had “spent his 25-year career with **Citigroup Inc.** primarily in growth roles across consumer banking in Asia, with a focus on customer experience and digitization. He has extensive wealth management and insurance distribution experience and most recently served as the global head of operations for Citi’s consumer bank, based in New York. He has lived and worked in Asia, Europe and the U.S. This global perspective, and the varied leadership roles he has performed, will be valuable as Manulife Asia embarks on its next stage of growth.”

In June 2018, Manulife announced a plan to improve the efficiency of its Canadian business through modernization of its technology. For this transformation, Manulife should save on costs by reducing its Canadian workforce.

Manulife has been recruiting and re-training employees with the skills needed in this digital age. The press release 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.”

Investor takeaway

All of these initiatives should help spur growth. However, the business needs to show the initiatives are working before the stock will go higher.

Because of all these changes and that the market doesn’t know if/when Manulife will transform for the better, the stock is trading at a discounted price-to-earnings multiple of about 10 at roughly $24 per share. If the stock trades at a normalized multiple, it can hit $31 per share in the next 12 months for about 29% upside potential.

Even if the price appreciation does not materialize in the near term, Manulife still offers a dividend yield of nearly 3.7%. With the stock’s healthy payout ratio of under 40% based on its 2017 earnings, there’s room for healthy dividend growth as well.

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