



Manulife Financial Corporation (TSX:MFC) Is Being Shorted: What Should You Do?

Description

The latest drama at **Manulife Financial** ([TSX:MFC](#))([NYSE:MFC](#)) stock had to do with short-seller Muddy Waters Research shorting the stock. The news came out last Thursday. Since then, Manulife's stock has dipped about 6%.

Why Muddy Waters is shorting Manulife

Apparently, Manulife's life-insurance subsidiary was taken to court by the hedge fund, Mosten Investment, which believes that according to a 1997 life insurance policy that it owns, it should be allowed to deposit unlimited amounts of money with Manulife to earn an interest rate of at least 4% per year.

Muddy Waters believes this could lead to billions in losses for Manulife, but Manulife disagrees. Muddy Waters believes that the risks of this case have not been played out on the stock, which means there could very well be more downside on its way.



What's the valuation of Manulife?

At \$21.86 per share as of writing, Manulife trades at a blended price-to-earnings multiple of about 8.6. It hasn't traded at such a cheap valuation since 2012.

Under the normal course of things, Manulife was estimated to grow its earnings per share by about 11% per year for the next three to five years, which means the stock is trading at an attractive PEG ratio of about 0.78.

Its normal multiple is about 12, which means Manulife's fair value per share is about \$30.50, and the stock is discounted by about 28%.

However, there are risks with this ongoing trial. The near-term valuation of the stock can change drastically. The stock can be dragged down immensely or experience a relief rally depending on the end result of the verdict.

What should investors do?

If you already own Manulife stock, it will be prudent to get out of the stock or at least reduce your holding depending on how much of your portfolio is in Manulife. If the verdict falls in Mosten's favour, it will be devastating to Manulife in the near term.

Shareholders who have a long-term investment horizon may choose to believe in the current management to turn the company around after this issue, [continue collecting its dividend](#), and ride out the volatility.

No matter what the verdict will be, up until the final second, Manulife stock will likely be pressured because of the issue. So, investors looking to buy shares of the potential value name should wait for some support in the stock first.

Investor takeaway

[Manulife](#) looks cheap and offers a 4% dividend yield. However, there's no need to rush to buy the stock because it will likely be pressured by the court case in the near term. Investors who have a long-term investment horizon may brave it out and buy some shares when the dividend stock shows some support.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:MFC (Manulife Financial Corporation)
2. TSX:MFC (Manulife Financial Corporation)

PARTNER-FEEDS

1. Msn
2. Newscred

3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date

2025/07/02

Date Created

2018/10/09

Author

kayng

default watermark

default watermark