Rising Interest Rates to Drive Undervalued Manulife Financial Corp. (TSX:MFC) Higher

Description

Interest rates continue to rise, and as we know, rising interest rates set the stage for strong performance from Canada's biggest life insurers.

While these companies are more than just Canadian life insurers, as they have growing businesses in Asia and growing wealth and asset management businesses, rising interest rates provide a boost to an already favourable thesis.

This thesis is predicated on two major trends.

The first is the rapidly emerging middle class in Asia, which is increasingly driving demand for financial solutions. The second is the aging population worldwide, which is driving demand for retirement and asset management solutions.

Let's take a closer look at **Manulife Financial Corporation** (TSX:MFC)(NYSE:MFC).

With a market capitalization in excess of $50 billion, Manulife is a force to be reckoned with; it has a strong past and a very promising future.

In the last five years, the company has seen a 15% compound annual growth rate (CAGR) in core EPS, a 28% CAGR in the business value in Asia, and strong growth in its global wealth and asset management business, with a 20% CAGR in assets under management — all this while maintaining a strong capital position.

Manulife is seeing strong growth in wealth and asset management, and its expansion into Asia is rendering it much more than a Canadian life insurer.

As evidence of this, we can just look to the second quarter of 2018 results. Manulife posted a better-than-expected 25% increase in core earnings, earnings per share of $0.70, and the company generated an ROE of 14%, which was above its targeted range and a solid improvement.

Core earnings in Asia were up 19% year-over-year and 20% year-to-date, reflecting continued growth in that region and reflecting the general thesis.

Manulife stock is currently trading at a dividend yield of 4.12%.

In addition, the dividend has been growing. The dividend was increased four times in the last five years, with the latest ones being a 7% increase in the fourth quarter of 2017.

According to Manulife, a 50-basis-point increase in interest rates would have a $100 million impact on net income and have a meaningful effect on its Minimum Continuing Capital and Surplus Requirement Ratio.

The company has been performing above expectations recently, and management has bold targets of generating $1 billion of savings by 2022.

Manulife stock trades at a P/E of roughly 9 times this year's earnings, well below its peer group (over 10 times) and its historical range.

Despite recent short-selling activity, Manulife is a good long-term holding for the contrarian value investor.

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