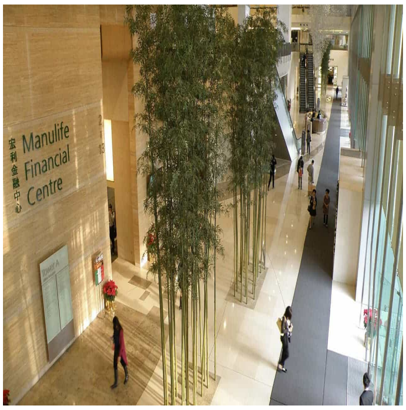

Manulife Financial (TSX:MFC) Is a Top Stock on the TSX Index

Description

Financials have been some of the hardest-hit stocks during the market's mini-correction. The sector dip was counter-intuitive, especially in an environment of rising interest rates. Financials were already some of the cheapest stocks on the index. No matter; for opportunistic investors, it provided a great buying opportunity.

Although most stocks have rebounded, a few remain depressed. Case in point, **Manulife Financial** (TSX:MFC)(NYSE:MFC). Although the company has rebounded off 52-week lows, its share price is still down almost 9% year to date.

Short target

On top of general market weakness, Manulife was targeted by notable short seller Muddy Waters. In October, Waters analyst Carson Block cautioned that current litigation can have a significant impact to the company's earnings, capital, creditworthiness, business, and solvency. Short sellers have a way in which to exaggerate doom-and-gloom scenarios.

First, a little background on the current litigation issue. As per *Bloomberg,* Hedge fund Mosten Investment LP took Manulife to court claiming, "it should be allowed to deposit unlimited amounts of capital with Manulife and earn at least 4 percent in annual interest based on a 1997 universal life insurance policy it owns."

Manulife believes that these claims are unwarranted. These policies were never intended to function as deposit or securities contracts.

Shortly after, Manulife receive good news as the province of Saskatchewan published regulations limiting the amount of premiums a life insurer may receive or accept for deposit in life insurance policies. Essentially, the new regulation closes a loophole that exploits the spirit of the contract. This is a big win for Manulife and Gabriel Dechaine, an analyst with **National Bank** who believes this should put the litigation to rest.

Better-than-expected earnings

As drama unfolds in the courts, Manulife released impressive third-quarter earnings on Wednesday. Earnings per share of $0.75 beat analysts' estimates by $0.08 or 12%. Year over year, earnings grew by 42.5% and return on common shareholders' equity (ROE) grew by 420 basis points.

The good news didn't stop there. Asia continues to be a bright spot for the company, as new business grew 29% in the region. Its Global Wealth and Asset Management segments also delivered impressive growth. As of the end of the quarter, the company had $1.1 trillion in assets under management.

Investors should have anticipated this beat. A week ago, the company surprised investors by raising dividends by 14% after releasing more than $1 billion in capital. The raise came earlier than expected and marks its second increase of 2018.

Valuation

Manulife is currently trading in the lower half of its 52-week range and is 23% below its 52-week high. The company is trading at a ridiculously cheap 7.47 times forward earnings. Furthermore, the company's P/E-to-growth ratio of 0.70 implies that its share price is not keeping up with expected growth rates. It is thus considered undervalued.

Management agree, as they recently announced their intentions to buy back shares. Manulife believes that the "recent market prices do not reflect the underlying value of Manulife's business." Analysts are also bullish and have a one-year price target of $28.72. This implies 33% upside!

Foolish takeaway

Muddy Waters's short thesis took a blow with new provincial regulations. Taking away the noise and distraction of the lawsuit, Manulife is growing at an impressive pace. Given its recent weakness, everyone agrees — the company is undervalued.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

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

Tags

1. Editor's Choice

Date
2025/08/23
Date Created
2018/11/08
Author
mlitalien