Should You Buy Manulife Financial (TSX:MFC) for the 4.5% Dividend Yield?

Description

Manulife Financial Corporation (TSX:MFC)(NYSE:MFC) is among Canada's oldest companies. With holdings in insurance, banking and wealth management, it's one of the country's most diversified financial institutions. Manulife is noteworthy for the steep hit it took in the great recession, where it lost 67% of its value in less than a year.

Manulife's stock has still not recovered from its 2008 losses, which raises the question of whether the company might be a good depressed value play. To answer that question, we need to look at the company's core business operations.

Manulife's insurance business

Manulife is a diversified company that's mainly focused on health, travel and life insurance. Insurance companies make money by collecting premiums from customers and investing excess premiums ("float"). Insurance companies aim to invest an amount of money that won't be called in for claims (money that customers request to be spent on services).

This makes insurance companies great businesses in good times, but there are two things to note: one, insurance companies can be negatively impacted by catastrophes; two, they are also negatively affected by down markets. In Manulife's case, if there's a sudden outbreak of disease, its health insurance business is likely to experience a large number of claims and lose money. And in the case of invested float, if the markets go down, then that portion of Manulife's assets will decrease.

Abysmal long-term performance

Manulife has had an absolutely terrible 10-year run. After falling about 67% during the 2010's financial crisis, it still has not recovered most of its value. If you shorten the time horizon to five years, however, it's up about 9%.

The reason why Manulife was hit hard by the recession is easy to explain: as an insurance company, it has significant exposure to market volatility. However, it's not entirely clear why the price still hasn't recovered to its 2008 peak, especially when we look at the company's earnings.

Profitable and growing

Manulife is a highly profitable and growing operation, with $1.5 billion in net income last quarter, up from $468 million last year. Revenue is not growing as quickly, but being a financial company, much of Manulife's earnings will naturally come from investment gains rather than sales. And, if you take that as a good thing, there's yet another reason to recommend Manulife.

Dirt cheap

Manulife stock is dirt cheap going by Thomson Reuter's 5-year projected earnings, which give it a forward P/E ratio of just 7.57. A strong number, but remember that projected figures can be wrong. For the trailing 12 month period, the P/E ratio is around 18, which isn't too bad. Returning to those projected figures once more, they also result in a PEG ratio of 0.77, which is phenomenal.

About that dividend

Now we get to the main point of this article: is Manulife worth buying for the 4.55% dividend yield?

I'd answer that question with a tentative yes. Not only is Manulife a growing company, but the dividend is growing as well: between 2017 and 2018 it went up by 7.3%, and is up 41% since 2014. However, this company has been known to cut its dividend occasionally, so it's not the safest income out there. Don't invest in this stock unless you're willing to risk some down quarters or years, because it has had some earnings misses in the past.

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