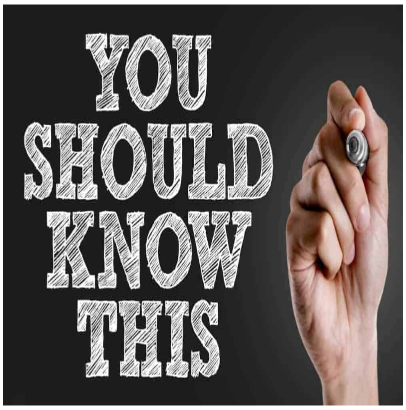

1 of These Insurance Stocks Can Double in a Year

Description

Manulife Financial (TSX:MFC)(NYSE:MFC) stock has been especially weak. It was already dragged down by a lawsuit, and the market correction just dragged the dividend stock even lower despite Manulife increasing its quarterly dividend by 13.6% in November. To clarify, Manulife's 2018 payout was 11% higher than its 2017 payout on a per-share basis.

Manulife did horribly during the last recession triggered by a financial crisis, but it has been turning itself around. From 2013 to 2017, it increased its adjusted earnings per share by about 13.5% per year on average.

Since 2013, an investment in Manulife has delivered annualized returns of about 9%, which is more than satisfactory, as the stock has experienced a P/E compression from about 12.1 times to 6.8 times earnings. Notably, about 18% of its total returns came from the dividends it paid out.

Fairfax Financial Holdings (TSX:FFH) stock has corrected about 26% from its 52-week high. At about $584 per share as of writing, Fairfax trades at below one times its book value, which looks cheap compared to its five-year average of 1.28 times.

Manulife is super duper cheap

Manulife stock has corrected about 32% from its 52-week high to $18.50 per share as of writing, which is less than a percent higher than its 52-week low. It trades at less than seven times earnings, which is super cheap for a stock that with a long-term normal multiple of 12.7.

Based on this normal multiple, the international life and health insurer can potentially double from current levels to about $37.20 per share in a year's time. The caveat is that there's no guarantee when the stock will trade at its normal multiple.

Fairfax outperforms over the long run

Since 1985, Fairfax has been under the same leadership, and it has delivered phenomenal book value per share growth. From 1985 to 2017, it compounded its book value per share by 19.5% per year. In the same period, its stock price per share appreciated about 18% per year on average.

Recent returns have been more modest, however. From 2007 to 2017, its book value per share compounded about 7% per year, and its stock price per share climbed about 8.8% per year. However, it still outperformed the Canadian market, which returned about 2.4% per year over the decade.

Which will you buy today?

Over the past few years, Manulife has improved its earnings quality and has proven itself to be a dividend grower again. Its payout ratio is very sustainable at about 36%. So, the stock's 5.4% dividend yield is safe, and investors can expect more dividend increases in 2019.

Thomson Reuters has a mean 12-month target of $29.40 per share on Manulife, which indicates that the stock is undervalued by 37% and is very attractive.

Fairfax offers a dividend that's paid annually. The ex-date of the next dividend is January 17. Note that if you miss the dividend this time around, you'll have to wait a year to get a dividend. Fairfax's yield is 2.1%. Reuters has a mean 12-month target of US$603 per share on Fairfax, which indicates the stock is undervalued by more than 26% and is attractive.

I don't think you can go wrong buying either stock today. However, I prefer Manulife, as it offers more immediate returns with an over 5% dividend yield and dividend growth potential.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:MFC (Manulife Financial Corporation)
2. TSX:FFH (Fairfax Financial Holdings Limited)
3. TSX:MFC (Manulife Financial Corporation)

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Date
2025/08/02
Date Created
2018/12/28
Author
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