



Manulife Financial (TSX:MFC) Is Targeting the Super Rich: Time to Buy the Stock?

Description

Manulife Financial ([TSX:MFC](#))([NYSE:MFC](#)) has had a great run so far in 2019. Up 15% year-to-date, it has almost recouped the losses it suffered last year. And with net income coming in at a whopping \$4.8 billion in 2018—up from \$2.1 billion in 2017—it's a growing enterprise.

Manulife is already a solid business based on its core operations. Now it's preparing for a move that could make it even better. Manulife has zeroed in on one of the fastest-growing customer bases in the world. It has a customer base with billions to throw around and an insatiable appetite for financial services.

I'm talking, of course, about the super rich.

Manulife recently announced that it would double its assets in wealth management. This business is roughly a proxy for the wealthy' as its clients typically have at least \$1 million to invest, and many are billionaires. Wealth management is a very lucrative business that could easily power considerable growth for Manulife. To understand why that is, we need to look at some current economic trends.

Why wealth management is so lucrative

Inequality is a politically charged topic. But taking politics out of it and looking at it strictly from a financial perspective, there's no denying that an increasing concentration of wealth at the top makes for many business opportunities. According to a 2017 *Globe and Mail* article, the wealth held by Canadian families grew by 73% in two years, while middle-class wealth grew by just 66%. That means that wealthier families accounted for the lion's share of the growth. So wealth management—a business that caters to the wealthy—has a rapidly growing pool of assets to manage.

Following in TD's footsteps

Manulife is not the only business that's concentrating more and more assets in wealth management.

Recently, **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)) upped its wealth management assets by buying Greystone Capital Management this past July in a \$800 million acquisition that shows the bank is betting big on the super rich. Greystone has about \$36 billion in assets under management, and that can be expected to grow, especially if stocks continue to be as strong throughout 2019 as they have been so far.

Manulife fundamentals

Manulife's wealth management investments have strong fundamentals. In its most recent quarter, the company earned \$500 million (up from a \$1.6 billion loss), had \$1.3 billion in core earnings (up from \$1.2), and had a 12.5% ROE (up from 12.1%). The company's core earnings were down somewhat from Q3, but up significantly from the same quarter a year before.

The company's solid \$2.3 in diluted EPS over the past 12 months give us an ultra-low P/E ratio of 9.5, while the stock yields a super-high 4.5% despite a [low payout ratio](#). One thing to keep in mind about this company is that its earnings history is somewhat volatile, with negative earnings here and there. But owing to the growth and cheap price, it's a [bargain stock](#) at the moment.

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