



## This Is Easily the Cheapest Dividend-Growth Stock on the TSX

### Description

In October 2018, I [wrote](#) that **Manulife Financial** ([TSX:MFC](#))([NYSE:MFC](#)) was being shorted by Muddy Waters because Manulife's subsidiary was taken to court by the hedge fund, Mosten Investment.

At the time, Manulife stock fell to \$21.86 per share, which was cheap for the stock. However, I'd concluded in the article that there was no need to rush to buy the stock because it will likely be pressured by the court case in the near term. Investors who have a long-term investment horizon may brave it out and buy some shares when the dividend stock shows some support.

By the end of 2018, because of the market correction, Manulife stock declined 15% from \$21.86.

Fast forward to yesterday, Manulife came out with a statement in connection with the favourable Saskatchewan court ruling in the Mosten case.

Here's a snippet of the press release: "We are pleased with this ruling from the Saskatchewan court late last week, which found in favour of Manulife in the Mosten case, dismissing Mosten's claims against Manulife. As we have previously stated, we were always confident we would ultimately prevail in this matter and that it would not have any material impact on the company's business."

As a result of this outcome, Manulife stock traded more than 3% higher on Monday, which is a material move on a stock with a \$45 billion market cap. And there's a strong reason to believe that it's just beginning to soar.



## **The dividend stock is still super cheap with huge upside**

At \$23.31 per share, Manulife trades at a price-to-earnings ratio (P/E) of about 8.5. This is very cheap for a company that's growing its profitability.

Manulife's five-year earnings-per-share growth rate is about 15.4%. Over the next three to five years, Manulife is estimated to increase its earnings per share by about 10% per year. So, the company is trading at a cheap PEG ratio of about 0.85.

Assuming a more normalized P/E of roughly 12, Manulife should be trading about 43% higher at \$33.32 per share.

## **Dividend safety with ample growth potential**

At the end of 2018, Manulife increased its quarterly dividend by 13.6% to \$0.25 per share. Yet its payout ratio is still only estimated to be less than 35% this year.

So, here we have a safe yield of 4.3% with a dividend that can increase by about 10% per year over the next three to five years.

## **Investor takeaway**

With the favourable court ruling, the clouds are cleared for [Manulife](#), and the stock should trade closer to its normalized multiple steadily over time.

Without accounting for the normalization of the multiple, we're still looking at a total return of roughly 14% per year with the safe dividend and earnings growth alone. Accounting for multiple expansion, we're looking at estimated returns of about 21% per year over the next five years.

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