What Price Is Manulife Financial Corp. (TSX:MFC) Stock Worth?

Description

For long-term shareholders, **Manulife Financial** (TSX:MFC)(NYSE:MFC) has been quite the dud of an investment. The company got caught with its pants down in the last recession, and with the never-ending worries that another big economic downturn may be around the corner, there are fears that another big blow-up could be in the cards over the next three years.

The inverted yield curve is a flashing red light, and that was a major reason why stocks sold off violently last Friday, just a day after everybody was bullish over the Fed pulling the breaks on rate hikes likely for the next year or so.

The inverted yield curve, a leading economic indicator of a recession, isn't anything new.

The risk of yield curve inversion has been the talk of the town for years now. And although the announcement of a rate hike pause may be a bittersweet event for the market as a whole, it's undoubtedly a huge negative for the life insurers like Manulife, which might receive a one-two punch to the gut as we head into the latter part of 2019.

Manulife gets out of Muddy Waters, but more tough terrain lies ahead

Manulife found itself wandering through Muddy Waters last year with short-sellers targeting the company over a legal battle between the company and a hedge fund, which would have had disastrous consequences if Manulife had lost the battle.

After Manulife won the case, investors breathed a huge collective sigh of relief, but the relief rally was dwarfed by the plunge that happened when short-sellers publicly disseminated their short theses.

With that major pitfall now out of the way, Manulife stock is still as cheap as it was when Muddy Waters was flinging dirt at the company in the media. One pitfall is in the rear-view mirror, but many more lie ahead as the financials enter a macro environment that's anything but favourable.

With interest rates are slated to stagnate alongside an economic slowdown, Manulife is going to experience a colossal dampener to its top- and bottom-line growth numbers. And if we do fall into a recession, which I think is unlikely, Manulife stock could still halve despite the company's already cheap valuation.

The cheap valuation metrics aren't as they seem

As you'd imagine, non-essential insurance products are a tougher sell when consumers have less disposable income, so investors should weigh the downside risk as multiple expansion is pretty much a given at this juncture.

Manulife stock currently sports a 4.5% dividend yield to go with a ridiculously attractive forward P/E of 7.8. Although the stock looks like it has a huge margin of safety, I'd urge investors to be aware that the multiple will prop up over the next year as the economy decelerates.

Foolish takeaway

Higher rates and a slowing economy are both terrible news for Manulife. And although the company is out of Muddy Waters, I still think the stock could find itself in the thick of things. As such, I'd advise sitting on the sidelines for now, as the stock could be headed back to the $19 levels where the yield would be well north of the 5% mark.

Today, the 4.5% yield, while attractive, probably isn't worth biting on unless you're in it for the income and you've got a time horizon beyond six years. With headwinds into consideration, investors should set their sights on $19.

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