Manulife Financial Corp. (TSX:MFC): Is the Dividend Stud About to Soar Like a Bird?

Description

Manulife Financial (TSX:MFC)(NYSE:MFC) is slated to pull the curtain on its first-quarter results on May 1 at the close, with an analyst conference call that's scheduled for the morning of May 2.

Year to date, Manulife has been one of the hottest stocks on the TSX with shares soaring 26% in just under four months' time. While the deep value proposition is all but gone, many investors may be wondering if the overly punished life insurer could be ready to break out, as it turns a new page in its growth story with the Asian business leading the charge higher.

Technically speaking…

At the time of writing, Manulife is testing a strong level of resistance at the $25 levels. Should earnings send the stock through this crucial level, there's no telling how high the stock could be headed.

Now, I know technical analysis may not be everybody's cup of tea. But given how accurate my last two technical calls were on Manulife and how textbook the head-and-shoulders pattern looked, I couldn't help but supplement my technical insights alongside the fundamentals to paint a better picture of where the stock was headed over the nearer term.

Back in October, I said Manulife stock was oversold and was due for a big bounce, just months after I urged investors to ditch the stock because of the ominous head-and-shoulders pattern that was in the works. The nice right shoulder of Manulife's chart was put into place thanks in part to a short report released by Muddy Waters regarding a lawsuit with a hedge fund that had severe financial implications in the event of a loss.

As it turned out, Manulife won. Today, the stock is right back at the "neckline" of the head and shoulders pattern. Although the neckline will be tough to break through, let's have a look at the fundamentals and how the stage will be set for the release of the Q1 numbers.

Fundamentally sound, but there are pressure points

With the lawsuit concerns now officially dead, investors are drawing their focus to Manulife's Asian segment, which has been posting applaud-worthy double-digit-growth numbers. Although John Hancock will continue to be a drag on ROEs, which has been an atrocious 8% over the last five years, I believe the growing Asian business could bring ROEs uptrending past the 12% mark at some point in the near future.

Manulife has some terrific insurance and wealth management assets, but unfortunately, I don't see the lower-ROE U.S. business being sold off or spun out any time soon to the dismay of growth-savvy investors. From a long-term perspective, however, I see a scenario where Manulife's less-profitable businesses will eventually be diluted in favour of high-earnings businesses in the sought-after Asian market.

That'll take some time, though, so investors looking to jump on the Asian growth bandwagon shouldn't feel pressured to buy today, because I don't think shares are about to take off any time soon, especially with the rough macro environment that's been set for the financials.

We've witnessed a huge slowdown in capital markets, and unfortunately for Manulife, the insurer has the greatest exposure to the capital markets relative to its peers. So, with that in mind, I'd urge investors to wait for a dip before pulling the trigger. Shares are still cheap at 8.5 times next year's expected earnings, but the recent run, I believe, was overdone, and a considerable chunk of the gains could be surrendered should Q1 results miss the mark.

Foolish takeaway

Manulife is a wonderful long-term holding. The 4.1% dividend yield is the icing on the cake, but I wouldn't rush to buy the stock here. It doesn't look good from a technical standpoint, and given near-term pressures; I'd say the stock could be at risk of correcting after its huge rally.

The business itself is fundamentally sound, however, so I'd just add the stock to my radar for now.

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