3 Reasons to Buy Manulife Financial (TSX:MFC) Stock

Description

With a $46 billion market cap and a history dating back to 1887, **Manulife Financial** (TSX:MFC)(NYSE:MFC) is one of the most popular stocks in Canada.

Since its founding, the company has grown into the largest insurance company in Canada as well as one of the largest institutional fund managers in the world.

Over the past 12 months, however, results have been mixed. Shares have been down by nearly 25% at some points, and returns have trailed the **S&P/TSX Composite Index**.

Now trading at less than 10 times earnings — a 50% discount to the market overall — here are three reasons you need to buy Manulife stock today.

It's just plain cheap

It's not easy to find cheap stocks these days.

Most stock indexes, which track the broader market, are priced at 20 times earnings or above. Popular stocks can be even more expensive. **Nike**, **Microsoft**, and **Procter & Gamble** trade between 25 and 35 times earnings.

Manulife, meanwhile, trades at just 8.4 times trailing earnings. That's close to a historic low. Over the past five years, the valuation has ranged from eight times to 31 times. The five-year average is close to 15 times earnings.

Plenty of other metrics make Manulife stock look like a steal. It trades at one times EV to sales, despite a sector median of 2.4 times. On an EV-to-EBIT basis, the company trades at just eight times versus a sector median of 11 times.

No matter how you slice it, Manulife shares look cheap.

Dividend growth and stability

At 4.3%, Manulife has a dividend yield that beats the market average. The payout has been growing too.

Over the past five years, the dividend has increased by nearly 7% per year. Growth seems to be accelerating as well, given the three-year average is closer to 11%.

While a 4.3% dividend is higher than average, it has plenty of room to grow. The current payout ratio is just 37%, meaning the majority of earnings are still retained by the company. In theory, the dividend could double overnight to 8.6% and still comprise less than 75% of earnings.

This room for growth also makes the dividend sustainable. Earnings next year are expected to be roughly $3.14 per share. Even if earnings plummet by 50%, the $1.57-per-share profit would still service the $1.00 per share in dividend payments.

It’s tough to foresee a future where this 4.3% payment isn’t maintained.

Benefit from rising interest rates

“In general, higher interest rates are better for Manulife, better for the industry,” says Chief Actuary Steve Finch.

With interest rates beginning to rise globally, this could provide a multi-year tailwind for earnings growth. It also provides downside protection for the rest of your portfolio.

Typically, equity markets do well when interest rates are falling. That’s because the cost of doing business drops. For example, a company that needed to pay 7% in annual interest on its debt now needs to pay just 4%.

Lower interest rates not only reduce financing costs, but they also allow companies to tap additional growth opportunities. A project that had a 6% expected annual return may have been unattractive in the past, but as debt costs fall, it could become a profitable venture.

In general, the opposite holds true. Rising interest rates increase debt costs and make many growth opportunities less attractive. This single factor could put a big dent in your portfolio’s value.

Holding Manulife stock gives you valuable diversification, for when interest rates rise, so do the company’s earnings. That likely leads to a higher share price, potentially when the value of your other stocks is falling.

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