1 of These Dividend Stocks Is an Absolute Steal Today!

Description

Fairfax Financial Holdings (TSX:FFH) and **Manulife Financial** (TSX:MFC)(NYSE:MFC) are both in the insurance space. However, between the two, there's a clear winner that can deliver amazing returns for shareholders over the next few years.

Fairfax isn't as good as it used to be

Since 1985, Fairfax has been under the same leadership and has delivered phenomenal book-value-per-share (BVPS) growth. From 1985 to 2018, it compounded its BVPS by 18.7% per year. In the same period, its stock price per share appreciated about 17% per year on average.

Recent returns were much lower, however. In the past decade, from 2008 to 2018, Fairfax's BVPS compounded 4.5% per year and its stock price per share climbed 4.4% per year. Its five-year BVPS growth was 5% per year, and the stock climbed 7.2% per year.

Manulife is much better today

MFC stock's 15-year returns of 1.5% per year were horrible. However, the poor performance was largely because the stock fell off a cliff during the last financial crisis, and it took the company about 3.5

years to recover and turn things around.

Manulife demonstrated that it has in fact turned a new leaf. From 2012 to 2018, the company compounded its earnings per share (EPS) by 16% per year! During the period, it increased its dividend per share at a much more conservative rate of 9.8% per year, and the stock delivered strong total returns of 12.1% per year. Now what's left is for investors to change their negative sentiment on the stock.

Manulife is a much stronger company than it was in the last financial crisis. Today, Manulife has been awarded an S&P credit rating of A and a reasonable debt/cap of 21%.

MFC stock is a deep value buy

At about $23.50 per share as of writing, MFC stock trades at a blended price-to-earnings ratio (P/E) of about 8.3, while the company is estimated to increase its EPS by about 10% per year over the next three to five years. Assuming a modest forward P/E of 13, a P/E multiple expansion can boost returns by about 9% per year over the next five years.

Combined with Manulife's safe yield of 4.2%, earnings growth of 10% and potential P/E multiple expansion, buyers in the deep value stock today can get wonderful total returns of about 14-23% per year!

Foolish takeaway

It's clear which stock is a better buy today. FFH's growth has tapered off, while MFC's is estimated to remain strong at about 10%. In fact, buyers of deep value MFC stock today are estimated to get incredible market-beating returns of 14-23% per year over the next five years.

CATEGORY

1. Dividend Stocks
2. Investing
3. Stocks for Beginners

TICKERS GLOBAL

1. NYSE:MFC (Manulife Financial Corporation)
2. TSX:FFH (Fairfax Financial Holdings Limited)
3. TSX:MFC (Manulife Financial Corporation)

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