Battle of the Financials: Manulife Financial (TSX:MFC) (USA) vs. the Big 6 Banks: Which Should You Buy?

Description

It's the popular question that many value-conscious income investors call-in to financial TV shows to ask: Should I buy one of the Canadian insurers or the Big Six banks?

Players from both industries have sizeable dividends that yield upwards of 5-6%. And amidst the recent bout of macro pressures affecting the broader financial scene, now is as good a time as any to initiate a contrarian position in an insurer or bank stock while pessimism remains the dominant aura on the Street.

The yields are now larger, the valuations are more depressed, and now that the bar has been set low, investors could have a chance to lock-in a big yield to go with some meaningful capital gains over the near term.

Without further ado, let's get to the battle of the Canadian financials.

Manulife Financial

First up, we have **Manulife Financial** (TSX:MFC)(NYSE:MFC), arguably the most popular Canadian insurer that value investors have been seeking. The stock has been tough to own over the past few years, with shares swinging wildly, hurting investors who jumped in at the wrong times.

The stock is still a far cry away from its all-time highs reached prior to the Financial Crisis, and the stock is currently down about 20% from its five-year high reached earlier last year. While the stock may seem like "dead money" to those with a time horizon of shorter than five years, I do think the stock makes sense to hold if you consider yourself a patient investor who will be content with the dividend (currently yielding 4.6%) and a lack of capital appreciation.

The stock has made significant strides in Asia, with $1.7 billion in inflows as of the second quarter, but with the Canadian business being flat and the U.S. business continues to suffer from significant outflows, the net result has been negative for Manulife.

I'm a huge fan of growth in Asia and the progress made, but unfortunately, I do see the U.S. market as a major drag, making it tough for Manulife stock to pick up meaningful traction.

Shares are cheap, however, at 7.1 times forward earnings. If you consider yourself a buy-and-hold investor, the name may be right for you.

The Big Banks

Representing the Big Banks, I'm going with my favourite name in the space right now: **CIBC** (TSX:CM)(NYSE:CM).

Believe it or not, CIBC actually managed to be a winner in the latest season of bank earnings, with mediocre results that were better than feared. Given the short-seller scare tactics, the barrage of analyst downgrades, and the sheer fear going into the quarter, it wasn't a surprise to me when CIBC rallied modestly off its low just under $100.

While the quarter caused bank investors to breathe a collective sigh of relief, CIBC isn't out of the woods quite yet. Growth still remains sluggish, and expenses are rising thanks to investment initiatives.

The outlook remains bleak, but that's a good thing, especially when you consider the upside surprise that CIBC's U.S. business is capable of sparking.

Indeed, the U.S. business was an overlooked bright spot for Canada's least-loved Big Six bank. The mortgage book remains a concern for some, but at current valuations, CIBC looks priced like there was something fundamentally wrong with the company when it's just a "normal" bump in the road brought forth by a transitioning credit cycle.

The main attraction to CIBC is the valuation. The stock trades at 8.3 times forward earnings with a 5.65% dividend yield, which is on the high end of the spectrum.

And the winner is?

Both stocks are heavily discounted, but CIBC looks like the better bargain. The dividend yield is higher, and the bank seems more likely to rebound over the next year, as industry headwinds subside with the folks buying into the short-seller theses.

Both Manulife and CIBC have respectable U.S. businesses, and the only difference is that Manulife's U.S. business is a laggard and CIBC's U.S. business is firing on all cylinders.

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