



Why Manulife (TSX:MFC) Stock Fell 4% in August

Description

Manulife Financial ([TSX:MFC](#))([NYSE:MFC](#)) fell 4% in August whereas the **S&P/TSX Composite Index** remained slightly positive. Despite being one of the cheapest stocks on the TSX, shares continue to get cheaper. Manulife stock now trades at 8.2 times 2019 earnings and just 7.7 times 2020 earnings. The dividend yield recently hit 4.1%.

In the [next downturn](#), valuations will likely compress rapidly, just as they have in every bear market this century. Buying cheap stocks is a proven way to mitigate the damage. If you want to preserve your capital without sacrificing upside potential, this could be the stock for you.

What happened?

Last month, the most exciting news came in the form of second-quarter earnings. EPS came in at \$0.72, beating consensus estimates by a penny. The beat wasn't surprising; over the last eight quarters, Manulife has surpassed EPS expectations 88% of the time. Still, there was a lot to like.

"We delivered strong growth in new business value of 14% while expense growth was a modest 3%," commented CFO Phil Witherington. "Neutral net flows in our Global Wealth and Asset Management business were in line with the prior year, but improved markedly from the first quarter."

That 14% growth in "new business value" was most exciting. Manulife has operated in Asia since 1897. It started in Shanghai (1897) and Hong Kong (1898), quickly followed by Japan and Singapore (1899). Over the next century, it expanded into the Philippines, Thailand, Malaysia, Indonesia, Taiwan, and Vietnam. Most recently, it entered Cambodia in 2012. Manulife's Asian division provides what the company deems "financial protection and wealth and asset management solutions." That translates into products like life and health insurance, annuities, mutual funds, retirement solutions, and institutional asset management.

While this division has occasionally created headwinds for Manulife, it's been a big driver of growth over the decades. The company now has more than 70,000 contracted agents selling Manulife solutions throughout the continent. It's a big reason why this stodgy company is still growing. As we

saw last quarter, analysts yet again underestimated the potential of this business segment.

What to expect

Over the last five years, Manulife has consistently traded in line with the market's performance, despite the fact that it remains one of the cheapest stocks on the TSX. As mentioned, shares trade at 8.2 times 2019 earnings, and just 7.7 times 2020 earnings. That's despite stable, double-digit returns on equity, a reliable 4% dividend, and international growth opportunities.

Over the past five years, EPS has grown by nearly 17% per year. Over the next five years, EPS is expected to grow by nearly 11% annually. That's a slowdown in growth but hardly warrants a single-digit valuation on earnings. One of the most proven investing strategies in history has simply been to buy cheap stocks that consistently grow earnings. Manulife fits this bill perfectly.

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