This Discounted Dividend Stock is Breaking Out

Description

Oftentimes, **Manulife Financial** (TSX:MFC)(NYSE:MFC) is viewed as the laggard behind **Sun Life Financial**. However, it can still perform well and deliver good returns. Moreover, the company reported its third-quarter earnings yesterday, which appeared to assist its price action of breaking out since the end of October.

Manulife has $1,167 billion of assets under management, up 4.5% from a year ago. Its investment portfolio is largely in fixed income and alternative long-duration assets, such as corporate bonds (32% of portfolio), government bonds (20%), mortgages (13%), and private placement debt (10%).

Recent results

Manulife's core earnings remained stable at $1.5 billion against the comparable quarter a year ago. The core return on equity was also steady at 13%.

Additionally, as a part of its portfolio optimization strategy, it renegotiated reinsurance agreements in Canada that led to a capital benefit of about $120 million. Cumulatively, this strategy has resulted in a capital benefit of $3.9 billion so far with the company expecting to free up $5 billion of capital by 2022.

The life and health insurer has also been expanding and enhancing its global distribution capabilities, and it partnered with mainland China and Vietnam for the long term, which should drive growth.

Notably, its insurance businesses delivered 14% growth in new business value to $526 million, while the retail and retirement business lines of its global wealth and asset management business achieved strong net inflows of nearly $3 billion.

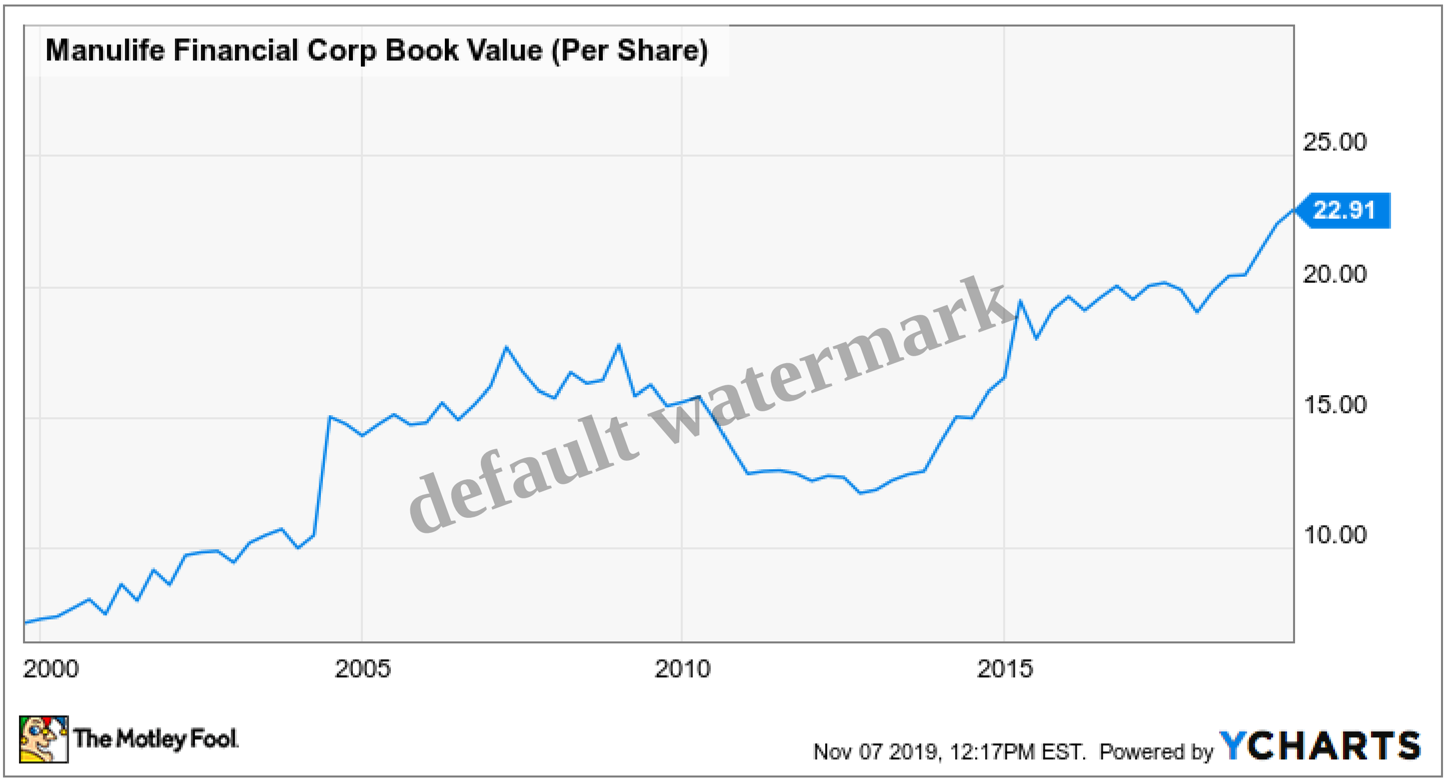
Dividend

As of writing, Manulife trades at roughly $26.20 per share and offers a decent yield of 3.8%. Since 2014, it has increased its dividend at a compound annual growth rate of 11.8%, essentially increasing the dividend by nearly 60% in four years.

Its payout ratio is well below 40%. So, it should be able to keep the dividend safe even when earnings are temporarily cut, say, during a recession.

Valuation

Positively, Manulife's book value per share climbed 16% year over year to $23.51. Shareholders should be pleased to see that, over the long run, the life and health insurer's book value per share tends to head higher.



MFC Book Value (Per Share) data by YCharts. Manulife's long-term book value per share chart.

In the past 10 years, Manulife's price-to-book-value has ranged from about 0.80 to 1.50 with a tendency to be at about 1.30. Assuming a price-to-book of 1.30, the stock would have a fair value of about $30.50, which represents 16% upside potential.

MFC Price to Book Value data by YCharts. Manulife's 10-year price to book value chart.

Investor takeaway

Manulife is improving its business. Additionally, it's a discounted dividend stock, trading at about nine times earnings and growing at a clip of north of 10%. Investors seeking value and income should perform more research on Manulife to see if it fits their portfolios.

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