Manulife (TSX:MFC) Stock Delivers Double-Digit Dividend Growth

Description

A few months ago, **Manulife Financial** (TSX:MFC)(NYSE:MFC) gave income investors a slight scare. In 2018, the company broke from historical patterns and raised the dividend along with third-quarter results.

This past November, the company failed to raise dividends along with third-quarter earnings, which meant the company had kept the dividend steady for five consecutive quarters. The last time the company went more than four quarters without a raise was after a 50% dividend cut during the financial crisis.

It was a worrisome sign, especially given that Manulife had just re-achieved Canadian Dividend Aristocrat status (five consecutive years of dividend growth). At the time, I cautioned investors not to worry.

There were no signs of a deteriorating business, and the company appeared well positioned to raise the dividend. I had surmised that it was simply a case of Manulife returning to its pattern of raising along with fourth-quarter and year-end results February.

This past Wednesday, Manulife came through for investors in a big way. Along with fourth-quarter results, Canada's largest insurer raised the dividend by 12%. The double-digit raise was a welcomed sign and is inline with its 11.9% five-year dividend growth average.

This is a great example whereby investors were rewarded for their patience. Investors who panicked and sold because they kept the dividend steady for more than a year have missed out on a double-digit dividend raise. With the raise, Manulife extends its dividend growth streak to seven years.

Not only has the insurer re-established itself as a reliable income stock, but it's also attractively valued. In the fourth quarter, earnings per share of $0.73 missed by a penny. The slight miss caused Manulife's stock price to dip, and was down by 2.5% as of writing.

The markets seemed focused on the slight bottom line miss and ignored several positives. Core EPS jumped by 12.3%, the expense efficiency ratio improved to 54.2% from 55.2%, generating $526 million in new business value.

The insurer is now trading at a very attractive 8.47 times forward earnings with a PE to growth (PEG) ratio of only 0.7. This is a clear sign that the company's stock price is not keeping up with expected growth rates. Both are also well below the insurance industry averages of 10.7 and 1.1, respectively.

Analysts' also recognize the undervaluation. Of the 16 analysts covering the insurer, 13 rate the company a "buy" or "strong" buy. They have a one-year price target of $31.20 per share, which implies 17% upside from today's price of $26.09.

Foolish takeaway

Dividend growth investing isn't an exact science. Although most have certain rules in place to guide investment decisions, it's important to allow for some flexibility.

A strict adherence to rules could have led to a sell signal on Manulife. In such a case, investors would have missed out. By exerting patience, dividend growth investors have been rewarded.

Similarly, for those looking to add to (or start) a position in the company, the current price offers excellent value. Combined with a history of double-digit income growth and expectations for 13% average annual earnings growth, Manulife Financial is a rare triple threat.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:MFC (Manulife Financial Corporation)
2. TSX:MFC (Manulife Financial Corporation)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Bank Stocks
2. Dividend Stocks
3. Investing

Date
2025/09/10
Date Created
2020/02/15
Author
mlitalien