Is Manulife (TSX:MFC) Stock a Must-Buy at $17?

Description

The coronavirus pandemic sent **Manulife** (TSX:MFC)(NYSE:MFC) stock crashing over 52% from peak to trough just weeks after hitting multi-year highs at $27 and change, as Canada's top financial institutions took on a brunt of the damage. Shares have since bounced back over 30% from the bottom but still appear to offer a compelling value to long-term investors seeking an above-average dividend (MFC currently sports a 6.6% yield), at least according to TD Securities, which is bullish on the name.

Is now the time to pound the table with Manulife stock trading at a sizeable discount to book?

Analysts at TD Securities recently upgraded Manulife to "action list buy" from buy, citing the stock's undervaluation and Manulife's strong capital ratio and promising Asian business, which will continue to grow once the world returns to normality. TD Securities has a price target of $27 per share, which implies a staggering 66% upside from where the stock stands today at $17 and change.

Before you back up the truck on the name today while it trades at 0.75 times book (which is close to the lowest it's been in recent memory), you must consider the massive headwinds that lie ahead. Because depending on the magnitude of the headwinds, the cheap stock may not be as cheap as it seems, especially if the coronavirus pandemic lingers on for longer.

Manulife stock: potentially long-lived risks are still on the table

Even after the coronavirus (COVID-19) is long gone, the recession it's going to leave behind will make it tough for the life insurer to bounce back in a V-shaped fashion. Why? Insurance products and wealth management services are a tough sell during times of economic hardship.

Even if the broader markets were to post a V-shaped recovery, I find it will be a prolonged road to recovery for Canada's top insurers, as it was prior to the 2007-08 Financial Crisis. When it comes time to tighten the belt around the world, one of the first things to be taken off the budget are "nice-to-have" products like life insurance. And sadly, with far less wealth to manage after the recent stock market rout, one can only expect the demand for wealth management services will drag on for many more months, if not years after the pandemic subsides.

Moreover, rock-bottom interest rates do not bode well for a life insurer like Manulife. Not only could low interest rates be here to stay for the long haul, but they could go into the negatives (as oil prices did this Monday), as central banks are pushed into a corner.

There's no question that Manulife's earnings are going to come under pressure over the coming quarters. While the dividend looks pretty safe, I am a bit wary of buying into a name after such an unprecedented bounce from the March bottom.

Foolish takeaway

Sure, Manulife still trades at a lofty discount to book. Still, given the likelihood that the TSX could surrender a considerable chunk of the gains posted over the last few weeks, I'd urge investors to wait for a better entry point. Shares of Manulife will probably take far longer than your average stock to fully recover from the coronavirus-induced damage given that life insurance is seen by many as a "want" rather than a "need," especially in these unprecedented times.

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