Should You Buy Manulife (TSX:MFC) Shares Before They Have a Chance to Bounce?

Description

Manulife (TSX:MFC)(NYSE:MFC) has been a tough stock to own since the Great Financial Crisis sent shares into unprecedented depths. The Canadian insurance firm and provider of financial services has still yet to recover to its late-2007 highs. With the coronavirus crisis factored in, Manulife seems like a stock to avoid if you're not a fan of excessive amounts of baggage, despite the bountiful 6.1% dividend yield.

If you're a value investor who's looking to beat the markets, though, you should look to the stocks that nobody else wants to own, because those are the ones that will give you a better shot at sustainable outperformance relative to the broader indices.

Manulife is a former market darling that offered a big dividend alongside a good amount of capital gains, but with shares struggling to pick up meaningful momentum, the stock looks like a dud, especially in light of the coronavirus crisis, which could have far longer-lasting consequences for the insurers and the economy.

A brutal first quarter plagued by COVID-19

In the first quarter, COVID-19 wreaked havoc on the insurer. Net income and core earnings plummeted 60% and 34%, respectively, thanks to weakness across the board (Canada, Asia, and the U.S.). Higher travel insurance claims and reduced business volumes in Japan weighted heavily on Manulife's core earnings.

On the non-core earnings front, Manulife was also under pressure, with a hefty $608 million after-tax charge due to investment-related experience losses. Given the economic carnage caused by COVID-19 came alongside interest rate cuts, Manulife now finds itself between a rock and a hard place.

Manulife is down and out, but the depressed valuation looks

too good to ignore

While it's tough to find anything to love about the Manulife story at this juncture, I think long-term thinkers who aren't rattled by volatility ought to consider scaling into a position today if they haven't yet done so. The dividend looks relatively well covered and safe enough for scooping up at today's depressed valuations.

Moreover, I think the damage done to MFC shares is a bit exaggerated, given the company still has a strong capital ratio alongside a pretty low leverage ratio. While COVID-19 is hurting Manulife, the damages are likely already baked into the stock price here. Given the upside to be had once the pandemic passes and conditions normalize, I think the price of admission into Manulife stock is nothing short of compelling at just 0.7 times book, which is considerably lower than the stock's five-year historical average price to book of 1.1.

Manulife's management team was doing all the right things, but exogenous factors have gripped the stock. Manulife just got hit by the right hook dealt by the coronavirus crisis, and while shares are likely to tread water for quite a while, contrarians are going to want to start accumulating shares sooner rather than later, because shares could bounce back without a moment's notice on any good news relating to the world economy's recovery from the COVID-19 crisis.

Foolish takeaway

Manulife's long-term fundamentals are still very much intact. And once this crisis ends, I see ROE numbers bouncing back rather quickly thanks to strength of its Asian Insurance and Wealth Management business. For now, there's the lofty dividend to collect while you wait for macro headwinds to gradually fade over the coming years.

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