VALUE ALERT: January's Top Value Pick You Can't Ignore

Description

Looking for a stock that could top the charts in January? Want to invest in your Tax-Free Savings Account (TFSA) or RRSP and don't know where to start? This article is for you.

Manulife Financial Corp. (TSX:MFC)(NYSE:MFC) is incredibly cheap right now compared to its peers as well as to its long-term average valuation. The company is trading right around book value (any stock is considered cheap at this level). Accordingly, this multiple seems incredibly cheap when one compares it to the company's long-term historical average of around 1.1-1.2-times book.

This is also one of the best dividend stocks on the **TSX** today. Consequently, income investors should take notice. This stock's dividend yield of around 5% is incredibly juicy relative to where bond yields sit today. This dividend yield is supported by a very low payout ratio around 40% and operating cash flows near $20 billion per year.

With a market cap of only $44 billion, this stock is trading at just over two-times cash flow. I've personally not seen a large cap TSX stock trading cheaper than this one in some time.

Fundamentals extremely solid

From a fundamentals perspective, this stock is a winner. This company's return on shareholder equity of around 11% could increase further this year. This is because Manulife has done a great job thus far of refocusing its product portfolio and moves toward "new age" investing and life insurance products.

This company has invested significantly in technology to improve its returns for shareholders. Manulife is as innovative as it comes in the life insurance and financials space, making this a company that really looks dirt cheap at these levels.

Potential investing losses from lower interest rates have overshadowed the growth opportunities Manulife has taken advantage of. I think a growth scenario in Q1 and beyond is far more likely than retrenchment. These fundamentals are simply too strong for investors to lose at these levels.

Geographic diversification a key investing thesis

Manulife is extremely well-diversified geographically. The three main markets this company generates income from are Canada, the U.S. and Asia, split almost evenly among these three areas. Asian growth has slowed because of the coronavirus, but I expect this market segment to really take off.

With many Asian markets Manulife has growing market share in seeing the percentage of the population that would identify as “middle income” grow substantially, the demand for wealth management and insurance products is only going to grow exponentially.

I think investors are brushing off this growth potential due to amped up pessimism in this sector. For those who believe Manulife is strong enough to survive (as I do), this depressed stock price is a real reason to buy now.

Bottom line

This company’s valuation relative to its existing earnings and returns for shareholders shows just how undervalued this stock is today. This stock has a tremendous amount of upside, even simply returning to an industry-average level. If the economy improves in the years to come, we could see Manulife really take off.

This is a safety play more than an aggressive growth play, so investors seeking out of this world returns won’t get that with Manulife. However, I view double-digit long-term average returns as good enough for my RRSP or TFSA.

That said, this stock is a value play, has a significant safety net/moat, and is priced at a level that is very attractive today. In other words, there’s a lot to like about Manulife right now.

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