



Forget the Banks: Buy This Top TSX Financials Stock Instead

Description

Canadian banks have almost fully rebounded from March lows as a group. Investors have bought into the stability story these institutions provide, and have gobbled up the higher-than-average yields these lenders were providing just months ago.

Today, the value argument for owning Canada's Big 6 banks is relatively muted, for this reason.

However, I see tremendous value with other financials plays such as **Manulife Financial Corp.** ([TSX:MFC](#))([NYSE:MFC](#)). I'll discuss why.

Valuation lags the banks in a big way

This is a stock that has, in the past, traded at around the [multiple](#) Canadian banks trade at. I think this is a stock which deserves a double-digit price to earnings multiple. Today, the company's P/E multiple is around eight times earnings while Canadian banks all trade around the 11 to 12-times earnings range.

Such a multiple expansion would indicate this is a stock with at least 20% upside from these levels.

Such a valuation increase is not out of the cards for Manulife. The company's been doing a good job of tidying up some of the company's legacy businesses which have been anchors for this stock in the past. Additionally, Manulife has outperformed in terms of creating shareholder value via the company's growing wealth management business. I think investors should keep an eye on this sector in particular, as there's a tremendous pathway for growth here in North America, and more particularly abroad.

Growth under-appreciated today

Here's where the real value lies with Manulife, in my estimation – the company's tilt toward Asia.

Asian growth is under-appreciated by the market right now. The demographics in the key markets

Manulife is expanding into have the potential to provide a level of growth I don't think the company's peers can achieve. Specifically, growth in the middle class of countries like China bodes well for companies like Manulife that are expanding aggressively in this market.

Most financials and banks don't have a viable runway to long-term growth without either technological advancements or developing new markets. Manulife checks both boxes, but is particularly interesting due to its globally-diversified nature.

The Canadian banks are great. That said, I don't think they're likely to outperform Manulife on the growth front, at least over the next few years. If Asian growth continues as I expect it will, Manulife stock is a winner right now. As far as financials go on the growth front, Manulife is about as good as it gets. Thus, I'd recommend all investors consider this stock today. There's a 4.5% dividend yield in it for those interested.

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TICKERS GLOBAL

1. NYSE:MFC (Manulife Financial Corporation)
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