Manulife Stock: A Screaming Bargain at Today’s Valuations

Description

Shares of **Manulife Financial** (TSX:MFC)(NYSE:MFC) have been fluctuating wildly in recent months, as the TSX Index tumbled in anticipation of another economic recession. Now, a global economic downturn does not bode well for life insurance firms. Life insurance products tend to be more of a “nice to have” for financially strapped consumers looking for things to cut from the monthly budget.

Though higher interest rates are a good thing for the insurance plays, questions linger about where rates will settle once inflation is down to more manageable levels. In Canada, CPI numbers are still running hot at 8.1%. Many pundits believe that inflation is at or around a peak. Still, don’t count on the Bank of Canada to lighten up once it comes time to raise interest rates again. Another 100-bps (full point) hike could easily be in the cards.

Manulife stock: Real value for long-term investors

At writing, Manulife Financial stock trades at $22 and change per share after suffering a pullback of around 19% from its 52-week high just north of the $27 mark. As shares slide, the price-to-earnings (P/E) multiple has contracted in a big way. And the dividend yield has swelled to 5.82%, close to the highest it’s been since the 2020 stock market plunge.

At writing, MFC stock sports a mere 4.86 P/E. A single-digit multiple can be indicative of deep value. With a recession on the horizon and the potential for earnings to slide, the depressed multiple seems to be bracing for a hailstorm in 2023.

Indeed, low-P/E stocks may be enticing to value-conscious investors. However, such depressed multiples do not indicate the extraordinary value on their own. In some instances, those “too good to be true” P/E multiples are attached to a company that either has a considerable amount of baggage or faces a hurricane of headwinds that may be difficult to overcome.

Long-term tailwinds could be offset by near-term headwinds

As you may know, earnings shortfalls tend to expand upon P/E multiples. As such, today's low P/E in MFC stock may very well be too good to be true if the 2023 recession ends up being more severe than the market expects. Many pundits see the coming economic slowdown (or recession) as being relatively mild. If it is benign or if a recession can be avoided (I think it can), Manulife's low-single-digit P/E multiple represents real value.

In any case, Manulife has magnificent long-term fundamentals that will likely power shares higher over the next 10 years and beyond. The company's wealth management division is on the right side of a secular tailwind. Though Asia could continue experiencing economic weakness, there's no denying the massive wealth transfer that's likely to continue over the coming decades.

The Asian market accounts for around 30% of overall profits. Once the recession passes and global markets are ready to move higher again, Manulife stock will quickly go from dud to top dog again. The Asian market is a compelling source of growth that could fuel steady high-double-digit sales growth (slightly above North America's growth potential) throughout the decade.

Add the subtle boost of higher interest rates (they're expected to settle in the 2-4% range), and it becomes more apparent that MFC stock is more of a long-term value play than any sort of value trap.

The bottom line for bargain hunters

Though MFC stock may be a brutal hold for short-term thinkers, I think the trend is a friend of long-term shareholders. My takeaway? Take advantage of the nearly 6% yield before the firm can regain its groove. Things may not be as bad as they seem.

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Date
2025/09/01
Date Created
2022/07/26
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