Manulife Stock Rose 7% in November: Is it a Buy Today?

Description

In the face of various macro concerns such as surging inflation, rising interest rates, and a prolonged war in Europe, many investors may not be keen to put money to work in the financial sector. That said, there are certain pockets that may be worth considering. For those assessing **Manulife** (TSX:MFC) in this environment, the question of how investable this company is may be a difficult one to answer.

That's because despite the overall bearish economic climate, this is a major insurance player that's been on the rise. Manulife stock has surged 7% higher in November alone. That's during a month when many of its peers saw less-favourable performance.

The question, however, is whether this performance can continue. Let's dive into whether Manulife stock is a buy right now.

Manulife stock provides strong fundamentals

One of the reasons I've been bullish on Manulife stock for quite some time is this company's valuation. Indeed, in the financial sector, there are plenty of great stocks trading at value levels worth considering. But Manulife's valuation of only 6.5 times earnings is simply too cheap to ignore for income investors looking for a 5.5% yield.

Notably, these fundamentals are supported by strong earnings-per-share (EPS) growth, reflected in the company's historical performance. Over the past three years, Manulife has managed to grow its earnings per share by 16% per year. This is quite a stunning rate of EPS growth.

That said, there are clearly reasons why this stock remains depressed. The company's revenue slump over the past year has hurt the allure of MFC stock among growth investors. However, this drop has been more than offset by surging EBIT (earnings before interest and taxes) margins, which improved to 48% this past quarter.

Fundamentally speaking, there are few insurance companies with these kinds of metrics worth considering right now.

Earnings report did miss the mark

With any bull case comes a bear case. And for those bearish on Manulife stock, there are plenty of reasons to steer clear.

The most notable reason why some investors may steer clear of Manulife is the company's sensitivity to the macro environment. This sensitivity can be seen in rather underwhelming third-quarter earnings numbers, which saw the company miss on the bottom line.

Manulife's EPS of 51 cents this past quarter missed estimates by nearly 4%. Core earnings also decreased 16.7% year over year. This miss can mostly be attributed to a $256 million charge in the company's P&C Reinsurance business for assessed losses due to Hurricane Ian, reduced net gains on sales of the available-for-sale equities, and reduced business gains in the U.S. and Asia. These are all factors to be considered when investing in an insurance company.

While most experts still think MFC stock is undervalued at these levels, there are risks. Thus, while this highly profitable insurance company may seem cheap, there are plenty out there who don't agree.

Bottom line

My stance hasn't changed on Manulife stock. This is an undervalued insurance company with long-term upside potential worth buying now, in my view. That's mostly attributable to Manulife's earnings-growth potential, attractive dividend, and strong fundamentals.

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