



Manulife Financial Corporation (MFC)

Updated February 15th, 2019 by Prakash Kollu

Key Metrics

Current Price:	\$16	5 Year CAGR Estimate:	19.3%	Volatility Percentile:	56.7%
Fair Value Price:	\$26	5 Year Growth Estimate:	4.0%	Momentum Percentile:	23.2%
% Fair Value:	63%	5 Year Valuation Multiple Estimate:	10.6%	Growth Percentile:	22.2%
Dividend Yield:	4.7%	5 Year Price Target	\$33	Valuation Percentile:	97.7%
Dividend Risk Score:	D	Retirement Suitability Score:	C	Total Return Percentile:	95.6%

Overview & Current Events

Manulife Financial Corporation is a multinational insurance and financial services company headquartered in Toronto, Canada. It is one of the three largest Canadian life insurers. The company operates as Manulife in Canada and Asia, while its United States business is primarily operated through the John Hancock Financial subsidiary. The company has two major business lines that are life insurance and asset management. Manulife is cross-listed on both the Toronto Stock Exchange and the New York Stock Exchange, where it trades under the ticker 'MFC' with a market capitalization of US\$32B. Note that the company reports in Canadian dollars, this report will refer to the NYSE-listed shares and convert all financial results to U.S. dollars using prevailing exchange rates.

Manulife reported decent 4Q2018 earnings on February 13, 2019 that showed slowing net income to \$447M from 3Q2018 due primarily to market activity. But notably, net income and EPS were positive on a comparable quarter basis compared to 2017's comparable reporting period, which was affected by a \$2.1B charge due to the U.S. Tax Cuts and Jobs Act. The company demonstrated double-digit annualized premium equivalent (APE) sales growth in Asia and high-single digit sales growth in Canada but flat sales growth in the U.S. In total sales grew to \$1,108M in Q42018 from \$950M in Q4 2017. In asset management, Manulife experienced negative net inflows of \$6.8B in the quarter, a decrease from positive net flows of \$2.7B last year.

Manulife had a solid 2018 with net income of \$3.6B due to increases in all operating segments and geographies compared to 2017. The company's efficiency ratio improved by 3% from 2017 to 52% in 2018, suggesting that the company is demonstrating improved cost controls and nearly meeting the company's goal of a 50% long-run efficiency ratio. Notably, the efficiency ratio has decreased considerably from 63% in 2012. Asia continues to be the growth driver for the life insurance business with APE increasing to \$3,027M in 2018 from \$2,827M in 2017. The company had roughly \$459B in assets under management (AUM) and \$358B in administered assets at the end of 2018.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$0.78	-\$0.27	\$0.02	\$0.88	\$1.26	\$1.28	\$1.28	\$1.49	\$1.73	\$2.15	\$2.24	\$2.72
DPS¹	\$0.68	\$0.50	\$0.52	\$0.52	\$0.49	\$0.51	\$0.52	\$0.56	\$0.63	\$0.71	\$0.75	\$1.00
Shares	1,758	1,778	1,801	1,828	1,848	1,864	1,977	1,975	1,978	1,985	2005	2,107

Manulife Financial Corporation's EPS and DPS growth history is very volatile. Notably, the company performed poorly during the recession with a loss in 2010 and dividend cut. As a life insurer and asset manager, long periods of low interest rate such as recently experienced will depress earnings but notably interest rates are slowly rising so the Manulife's earnings on bond holdings should improve. In addition, market activity will affect both AUM and earnings from fees. But more recently, the company has demonstrated several years of increasing EPS and renewed growth of the dividend. The

¹ Note: While Manulife did indeed cut its dividend in the 2007-2009 financial crisis, the 2013 decline in per-share dividends was due entirely to foreign exchange fluctuations (the company declares its dividends in Canadian dollars, while NYSE:MFC shareholders are paid in U.S. dollars at the prevailing exchange rate).

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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dividend was raised roughly 12% in 2018 and future increases are expected. Manulife's cost efficiency efforts have driven bottom line growth and will continue to do so as the manages costs and improves efficiencies.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	22.9	---	---	13.7	13.0	15.1	13.4	9.6	11.1	8.5	7.3	12.0
Avg. Yld.	3.8%	3.1%	3.4%	4.3%	3.0%	2.5%	3.0%	3.9%	3.3%	3.9%	4.7%	3.4%

Manulife's P/E multiple history has been nearly as volatile as its earnings. We believe that a fair valuation multiple for Manulife is a P/E of 12.0 due to the strength of its Asia business, 10-year average of approximately 12.0 and improving efficiency ratio. Manulife has traded down since our last report giving it a P/E ratio of 7.3 today. If the company's P/E ratio expands to 12.0 over 5 years, this will boost the company's returns by 10.6% per annum on valuation alone.

Safety, Quality, Competitive Advantage, & Recession Resiliency

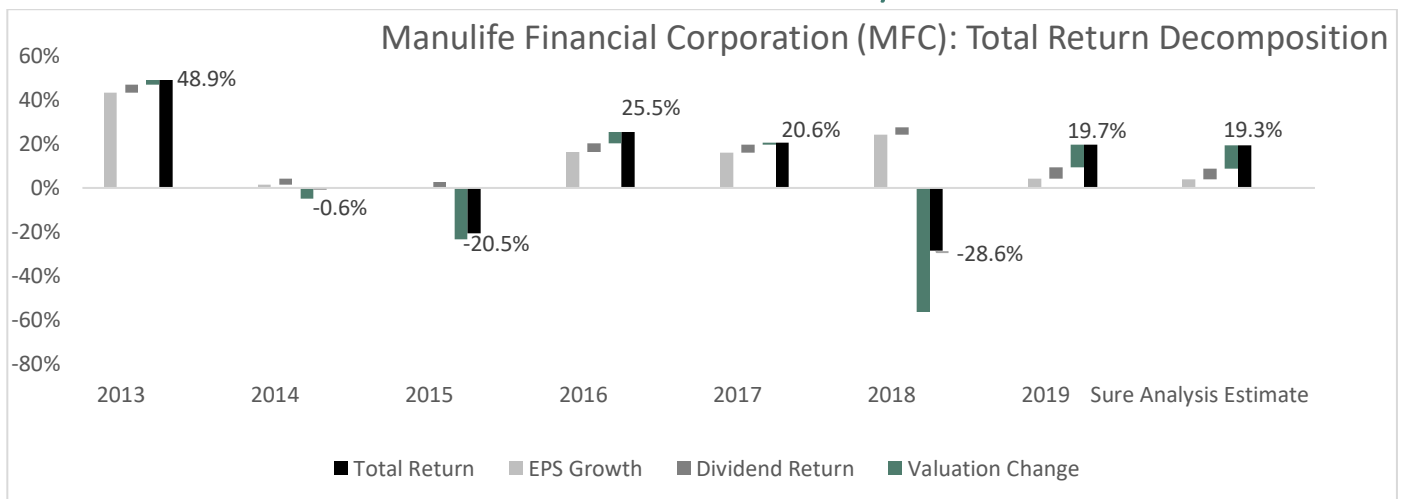
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	86%	N/A	N/A	59%	40%	40%	41%	38%	36%	33%	33%	37%

Manulife operates in a very competitive industry and life insurance is a commodity product where pricing matters. Scale and size can provide a competitive advantage by spreading costs. But Manulife's major competitors in Canada, Sun Life Financial and Great West have similar size and scale in life insurance and asset management. For this reason, we do not believe that the company has a competitive advantage in Canada or even the U.S. But the company has global reach and its Asian operation provide the majority of sales and growth and we believe that the company has a competitive advantage there. The company has also demonstrated the ability to increase AUM in its asset management business. We forecast the payout ratio to remain in line with where it is today at 33% - 38% in the coming years.

Final Thoughts & Recommendation

At present we are forecasting 19.3% total annual return over the next five years comprised of 4.7% yield, 4.0% earnings gain, and 10.6% from PE multiple expansion. Although the company operates in a competitive industry, it should grow through life insurance sales and increasing AUM for the next 5-years barring a major economic downturn. We forecast that the majority of returns will be from P/E multiple expansion and the dividend yield. But investors should be aware that EPS growth and thus returns may be volatile.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	35309	36472	51561	29118	18101	49265	26976	40276	45002	30073
SG&A Exp.	6745	7503	4107	4416	4485	4322	4874	5282	5581	6140
D&A Exp.	268	306	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net Profit	1234	-1612	220	1707	3028	3190	1740	2258	1596	3606
Net Margin	3.5%	-4.4%	0.4%	5.9%	16.7%	6.5%	6.5%	5.6%	3.5%	12.0%
Free Cash Flow	10584	11207	10991	10798	9229	9788	8128	12850	13728	14807
Income Tax	-1384	-775	-98	-492	564	608	257	148	184	488

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets (\$B)	195.36	424.70	452.52	487.52	482.38	499.12	506.50	534.53	580.15	550.85
Cash & Equivalents	N/A	11847	12551	13456	12801	18158	12888	11237	12696	11905
Acc. Receivable	N/A	671	11273	19792	17071	16593	26161	26551	25055	32615
Goodwill & Int.	8662	5906	5331	5140	4976	4704	6762	7496	7825	7413
Total Liab. (\$B)	167.92	400.03	428.15	462.23	455.12	469.89	476.28	502.77	546.62	516.23
Long-Term Debt	4365	5840	7031	8650	8280	7724	6880	9550	10474	9912
Total Equity	26008	22839	22187	22477	24385	26505	27854	28558	29946	31010
D/E Ratio	0.16	0.24	0.29	0.35	0.31	0.27	0.23	0.31	0.32	0.29

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	0.7%	-0.5%	0.1%	0.4%	0.6%	0.7%	0.3%	0.4%	0.3%	0.6%
Return on Equity	5.2%	-6.6%	1.0%	7.6%	12.9%	12.5%	6.4%	8.0%	5.5%	11.8%
ROIC	4.2%	-5.2%	0.7%	5.2%	8.7%	8.8%	4.7%	5.8%	3.7%	8.1%
Shares Out.	1,758	1,778	1,801	1,828	1,848	1,864	1,977	1,975	1,978	1,985
Revenue/Share	21.65	20.66	28.82	15.42	9.72	26.19	13.64	20.37	22.66	15.13
FCF/Share	6.49	6.35	6.14	5.72	4.96	5.20	4.11	6.50	6.91	7.45

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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