



Manulife Financial Corporation (MFC)

Updated August 13th, 2019 by Prakash Kolli

Key Metrics

Current Price:	\$17	5 Year CAGR Estimate:	16.4%	Volatility Percentile:	54.4%
Fair Value Price:	\$25	5 Year Growth Estimate:	4.0%	Momentum Percentile:	38.8%
% Fair Value:	67%	5 Year Valuation Multiple Estimate:	8.2%	Growth Percentile:	26.1%
Dividend Yield:	4.2%	5 Year Price Target	\$31	Valuation Percentile:	92.1%
Dividend Risk Score:	D	Retirement Suitability Score:	C	Total Return Percentile:	85.5%

Overview & Current Events

Manulife Financial Corporation is a multinational insurance and financial services company headquartered in Toronto, Canada. It is the largest Canadian life insurance company with 33% market share. 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 about US\$32.5B. *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 Q2 2019 results on August 7, 2019. Companywide net income increased \$0.15B to \$1.13B and diluted EPS increased to \$0.54 from \$0.46 on a year-over-year basis driven by double-digit growth in Asia. Expense efficiency increased 130 bps to 52.5% but is still near the company's long-term goal of 50%. In Life Insurance, Manulife achieved new business value of \$362M in the quarter, an increase of 14% compared to \$311M in Q2 2018. Annualized premium equivalent sales increased 7% to \$1,027.2M in the quarter from \$941M in the prior year on the strength of double-digit increases in Hong Kong, Canada, and the U.S. but offset by a 41% decline in Japan. Sales were suspended in Japan due to expected changes in tax regulation. In Asset Management, Manulife had flat net inflows versus positive \$0.076B in net inflows in comparable periods. Manulife had \$493.6B in asset under management at end of Q2 2019 compared to \$483.7B at end of Q2 2018. Manulife is well capitalized with a LICAT ratio of 144% above the supervisory target of 100%.

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	\$2.01	\$2.09	\$2.54
DPS¹	\$0.68	\$0.50	\$0.52	\$0.52	\$0.49	\$0.51	\$0.52	\$0.56	\$0.63	\$0.67	\$0.71	\$0.95
Shares²	1,758	1,778	1,801	1,828	1,848	1,864	1,977	1,975	1,978	1,971	1,981	2,031

Manulife Financial Corporation's EPS and DPS growth history is very volatile. Notably, the company performed poorly during the last recession with a loss in 2010 and a 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 higher than several years ago, so Manulife's earnings on bond holdings should improve. In addition, market activity will affect both AUM and earnings from fees. Manulife's cost efficiency efforts have driven bottom line growth and will continue to do so as the company manages costs and improves efficiencies. We are expecting on average 4% growth in EPS out to 2024 driven by increases in life insurance product sales and growth in AUM. But this growth will likely be volatile due to slowing global economies and market volatility. We are expecting on average 6% growth in DPS. The current payout ratio ~34% indicating that there is room for future increases.

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).

² Share count is in millions.

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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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	9.0	8.2	12.0
Avg. Yld.	3.8%	3.1%	3.4%	4.3%	3.0%	2.5%	3.0%	3.9%	3.3%	3.7%	4.2%	3.1%

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. On a P/E multiple basis, Manulife is trading at 8.1 suggesting that the stock is undervalued. Our current fair value is \$25. Our 5-year price target is \$31.

Safety, Quality, Competitive Advantage, & Recession Resiliency

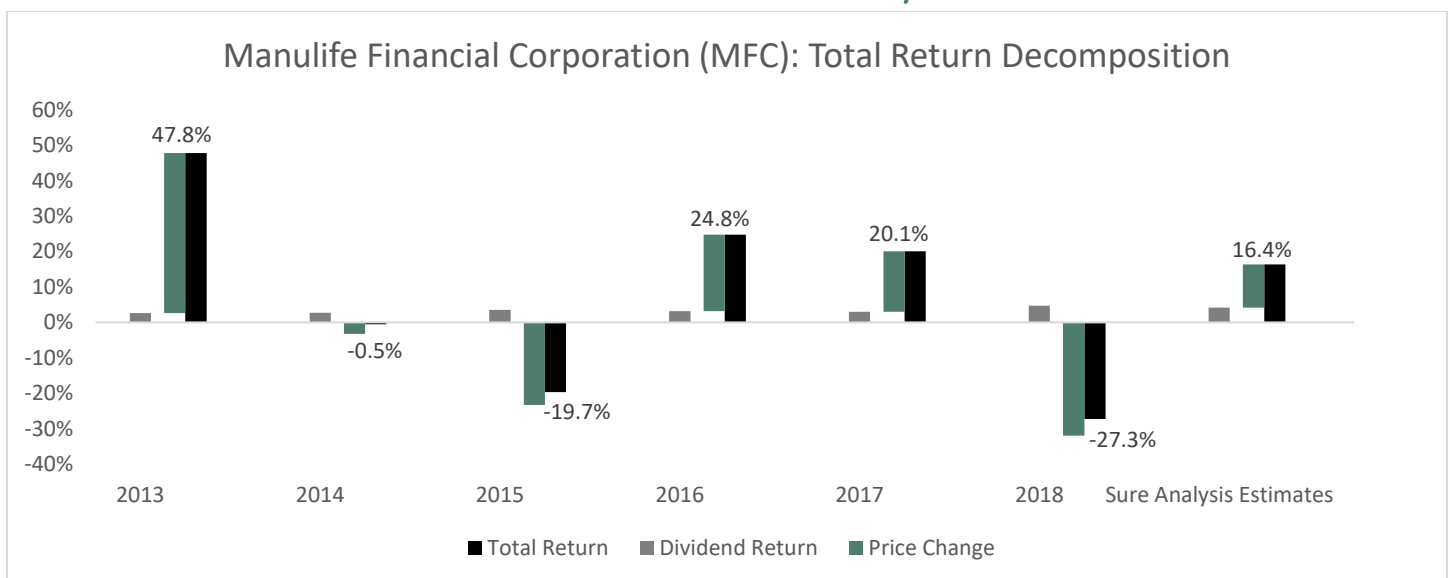
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	86.3%	N/A	N/A	59.3%	40.3%	40.4%	40.6%	37.4%	36.4%	33.3%	34.0%	37.4%

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 great majority of sales and growth. 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. Manulife is not recession resistant as demonstrated by its performance during the Great Recession. The company faces risks from low interest rates, poor underwriting, and market volatility during economic slowdowns.

Final Thoughts & Recommendation

At present we are forecasting 16.4% total annual return over the next five years comprised of 4.2% yield, 4.0% earnings gain, and 8.2% from PE multiple expansion. Although the company operates in a competitive industry, it should grow through new life insurance sales and increasing AUM. But investors should be aware that EPS growth and thus returns may be volatile. Due to the expected volatility and historical performance, we rate this stock a speculative buy.

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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