



Manulife Financial Corporation (MFC)

Updated February 12th, 2022 by Nikolaos Sismanis

Key Metrics

Current Price:	\$21.51	5 Year CAGR Estimate:	12.6%	Market Cap:	\$41.9 B
Fair Value Price:	\$23.80	5 Year Growth Estimate:	6.5%	Ex-Dividend Date:	02/22/2022
% Fair Value:	90%	5 Year Valuation Multiple Estimate:	2.0%	Dividend Payment Date:	03/21/2022
Dividend Yield:	4.8%	5 Year Price Target	\$32.61	Years Of Dividend Growth:	8
Dividend Risk Score:	D	Retirement Suitability Score:	B	Last Dividend Increase:	17.9% ¹

Overview & Current Events

Manulife Financial Corporation is an international financial services group that helps individuals and corporations make decisions through its wealth, asset management, and insurance businesses. It also offers annuity products and services. The company operates as Manulife across its offices in Canada, Asia, and Europe, and primarily as John Hancock in the United States. It has 37,000 employees, over 118,000 agents, and thousands of distribution partners, serving over 30 million customers. Manulife Financial is based in Toronto, Canada. The company reports in Canadian dollars, but all figures in this report have been converted to U.S. dollars.

On February 9th, 2022, Manulife Financial reported its Q4-2021 results for the period ending December 31st, 2021. Core earnings came in at \$6.5 billion, up 26% compared to last year. Earnings growth was driven by Manulife scaling its operations in Asia. Specifically, the company completed the acquisition of Aviva Vietnam and initiated a 16-year bancassurance partnership with VietinBank, one of Vietnam's largest financial institutions, enabling a full suite of insurance, wealth, and retirement solutions to be made available in Manulife's customer base.

Core EPS (excluding the major investment gains) for the quarter was \$0.66, 13.5% higher year-over-year. For U.S. investors, the exchange rate between CAD and USD remained rather unchanged compared to FY2020, not impacting the underlying numbers much. We forecast prudent FY2022 EPS of \$2.80, initially, to be adjusted as Manulife's performance through the year becomes clearer. Following better than expected results in Asia, Manulife hiked its quarterly dividend by 17.9% to a rate of CAD 0.33, implying an annualized rate of \$1.04 based on the current CAD/USD rate.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$0.94	\$1.54	\$1.57	\$0.76	\$1.06	\$0.78	\$1.71	\$2.14	\$2.31	\$2.81	\$2.80	\$3.84
DPS	\$0.52	\$0.49	\$0.49	\$0.48	\$0.55	\$0.65	\$0.67	\$0.77	\$0.88	\$0.93	\$1.04	\$1.46
Shares²	1,812	1,836	1,857	1,962	1,973	1,978	1,983	1,958	1,941	1,814	1,814	1,786

Manulife Financial has produced a growing net income over the past few years, powered primarily by growth in premiums and annuity revenues, as well as higher interest and dividend income derived by its investments. We expect the company to keep growing its EPS, driven by double-digit growth in its insurance segment in key Asian markets such as Japan and Hong Kong. Manulife should also generate higher wealth management fees going forward, enjoying consistent net inflows that grow its assets under management. During Q4, the company achieved net inflows of \$6.7 billion, driven by double-digit growth in gross flows across all geographies amid increased investor demand as well as lower mutual fund redemption rates. Hence, we still expect EPS growth of 6.5% in the medium term, being cautious of potential FX fluctuations that could sway this figure either way. The company has grown its DPS annually since 2014 in its local TSX listing, though U.S.-based investors have been slightly affected by currency effects. We expect the dividend to keep growing by around 7% in the medium term, lower than the company's latest increase of 17.9%, but closer to its historical average.

¹ In constant currency and in regards to the core DPS.

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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	12.8	10.7	13.0	22.4	12.9	22.1	10.5	8.4	7.4	7.1	7.7	8.5
Avg. Yld.	4.3%	3.0%	2.4%	2.8%	4.0%	3.8%	3.7%	4.3%	5.2%	4.6%	4.8%	4.5%

Manulife Financial shares have historically traded at a forward P/E in the high single to low single digits, in line with its industry peers. The stock's valuation is currently near its decade-low levels. Due to the company experiencing robust growth in Asia, we believe that the stock is undervalued at its current levels. A forward P/E of around 8.5 in the medium-term should make for a fairer multiple. The company ended the quarter with a book value per share of \$21.03, which is not far from the stock's actual price. Investors are likely to receive a relatively rich yield, powered by the stock's well-covered dividend.

Safety, Quality, Competitive Advantage, & Recession Resiliency

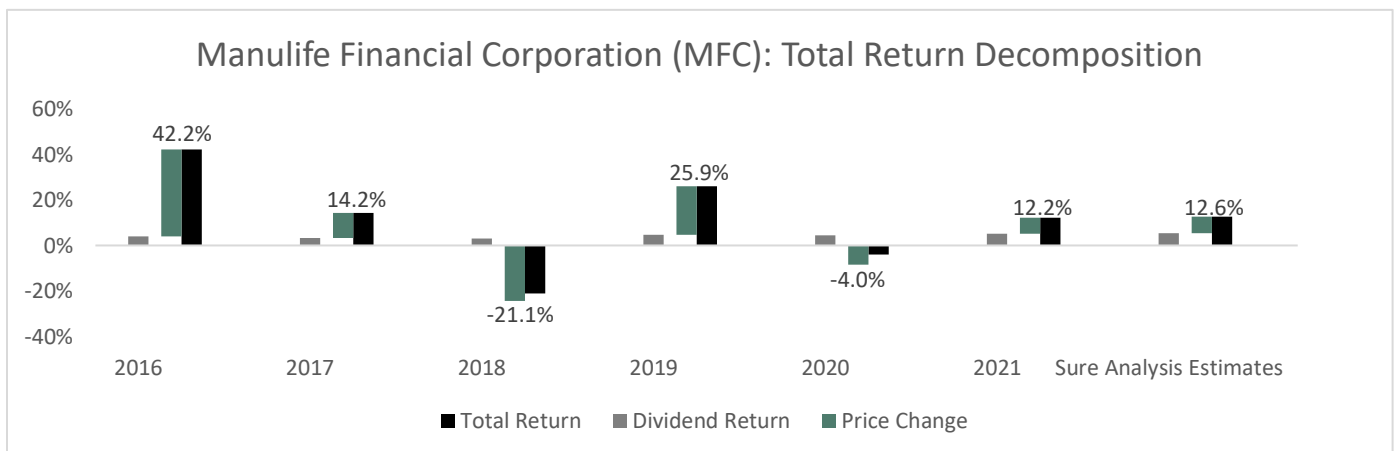
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	55%	32%	31%	63%	52%	83%	39%	36%	38%	33%	37%	38%

Manulife's dividend should be well covered by the underlying income, with the payout ratio currently at 37%. The company enjoys several qualities, such as great brand value due to its obsession with customer satisfaction, a clear long-term underwriting strategy that has shifted smoothly online, and a healthy financial leverage ratio, currently at 25.8%, close to the company's target of 25%. However, the company faces several risks. A 50 basis point increase in corporate spreads could affect the bottom line by around \$500 million. The insurance industry can also be quite competitive, with disruptive up-and-coming companies, such as Snowflake, threatening to capture market share. A recession could adversely affect the company, including deferred premiums, defaults of its debt investments, and lower investment income. Lastly, a surge in claims amid unforeseen reasons could also negatively impact the company.

Final Thoughts & Recommendation

Manulife Financials is a quality insurer with healthy financials and the potential to grow its earnings moving forward. The stock offers an above-average yield, which along with reasonable growth metrics, are likely to result in annualized total returns of 12.6% in the medium-term. However, U.S.-based investors should be wary of the possible currency fluctuations between the Canadian Dollar and U.S. dollar, which could notably impact domestic investor's dividends, and, consequently, total returns. Still, shares earn a buy rating due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	50,548	28,084	16,980	48,070	25,710	39,033	43,711	28,755	58,635	57,560
SG&A Exp.	4,107	4,416	4,485	4,322	4,874	5,282	5,581	6,140	5,791	5,605
D&A Exp.	349	390	414	418	454	523	432	576	472	490
Net Profit	220	1,707	3,028	3,190	1,740	2,258	1,596	3,606	3,970	3,975
Net Margin	0.4%	6.1%	17.8%	6.6%	6.8%	5.8%	3.7%	12.5%	6.8%	6.9%
Free Cash Flow	10,991	10,798	9,229	9,788	8,128	12,850	13,728	14,807	15,477	14,963
Income Tax	(98)	(492)	564	608	257	148	184	488	541	892

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	452520	487520	482384	499118	506503	534529	580147	550849	619421	690383
Cash & Equivalents	12551	13456	12801	18158	12888	11237	12696	11905	15540	20521
Accounts Receivable	765	1014	689	635	633	627	913	1005	1060	1132
Goodwill & Int. Ass.	5331	5140	4976	4704	6762	7496	7825	7413	7636	7786
Total Liabilities	428151	462230	455117	469893	476282	502767	546617	516231	581063	648815
Long-Term Debt	7031	8650	8280	7724	6880	9550	10474	9912	8928	10974
Shareholder's Equity	22187	22477	24385	26505	27854	28558	29946	31010	34505	37430
LTD/E Ratio	0.29	0.35	0.31	0.27	0.23	0.31	0.32	0.29	0.24	0.27

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	0.1%	0.4%	0.6%	0.7%	0.3%	0.4%	0.3%	0.6%	0.7%	0.6%
Return on Equity	1.0%	7.6%	12.9%	12.5%	6.4%	8.0%	5.5%	11.8%	12.1%	11.1%
ROIC	0.7%	5.2%	8.7%	8.8%	4.7%	5.8%	3.7%	8.1%	8.6%	8.0%
Shares Out.	1,786	1,812	1,836	1,857	1,962	1,973	1,978	1,983	1,958	1,941
Revenue/Share	28.26	14.87	9.12	25.56	13.00	19.74	22.01	14.46	29.89	29.62
FCF/Share	6.14	5.72	4.96	5.20	4.11	6.50	6.91	7.45	7.89	7.70

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

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