



Manulife Financial Corporation (MFC)

Updated November 15th, 2022 by Nikolaos Sismanis

Key Metrics

Current Price:	\$17.56	5 Year CAGR Estimate:	11.0%	Market Cap:	\$33.0 B
Fair Value Price:	\$18.40	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	11/21/2022
% Fair Value:	95%	5 Year Valuation Multiple Estimate:	0.9%	Dividend Payment Date:	12/19/2022
Dividend Yield:	5.6%	5 Year Price Target	\$23.48	Years Of Dividend Growth:	8
Dividend Risk Score:	D	Retirement Suitability Score:	B	Rating:	Buy

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 November 9th, 2022, Manulife Financial reported its Q3-2022 results for the period ending September 30th, 2022. Core earnings came in at \$0.98 billion, down 14% compared to last year. The decrease in core earnings was driven by a \$193 million charge in its P&C Reinsurance business for estimated losses related to Hurricane Ian (compared with a \$114 million charge in the prior year quarter for estimated losses related to Hurricane Ida and the European floods), lower net gains on sales of equities and the unfavorable impact of markets on seed money investment.

Core EPS (excluding the major investment gains) for the quarter was \$0.50, 11.9% lower year-over-year. For U.S. investors, the exchange rate of CAD against the USD fell slightly amid a stronger USD, which negatively impacted the underlying numbers by a small margin. We forecast FY2022 EPS of \$2.30. In February, the quarterly dividend was increased by 17.9% to a rate of CAD 0.33. It amounts to an annualized rate of \$0.99 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	\$2.30	\$2.94
DPS	\$0.52	\$0.49	\$0.49	\$0.48	\$0.55	\$0.65	\$0.67	\$0.77	\$0.88	\$0.93	\$0.99	\$1.39
Shares¹	1,812	1,836	1,857	1,962	1,973	1,978	1,983	1,958	1,941	1,946	1,904	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 from 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 Q3, the company achieved net inflows of \$2.3 billion, despite the ongoing challenges. Specifically, the company recorded inflows of \$1 billion from Retirement, \$0.5 billion from Asset Management, and \$0.8 billion from retail. We still expect EPS growth of 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 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	7.6	8.0
Avg. Yld.	4.3%	3.0%	2.4%	2.8%	4.0%	3.8%	3.7%	4.3%	5.2%	4.6%	5.6%	5.9%

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 modestly undervalued at its current levels. A forward P/E of around 8.0 in the medium-term should make for a fairer multiple. The company ended the quarter with a book value per share of \$19.69, which is notably higher than the current stock price. Investors are to enjoy 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%	43%	47%

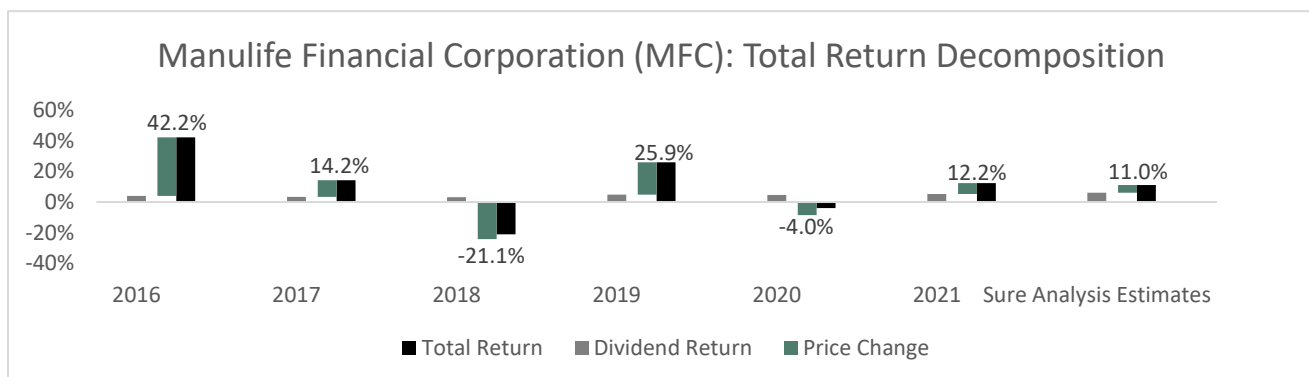
Manulife's dividend should be well covered by the underlying income, with the payout ratio currently at 43%. The company enjoys several qualities, such as great brand value due to its obsession with customer satisfaction, a clear long-term underwriting strategy that has shifted smoothly online, and a healthy financial leverage ratio, currently at 28.8%, somewhat close to the company's target of 25%. However, the company faces several risks. A 50 basis point increase in corporate spreads could positively affect the bottom line by around C\$100 million. Thus, the ongoing rise in rates benefits the company.

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 projected to result in annualized total returns of 11.0% in the medium-term. However, U.S.-based investors should be wary of the possible currency fluctuations between the Canadian Dollar and the U.S. dollar, which could notably impact domestic investors' 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	28,084	16,980	48,070	25,710	39,033	43,711	28,755	58,635	57,560	47,730
SG&A Exp.	4,416	4,485	4,322	4,874	5,282	5,581	6,140	5,791	5,605	6,244
D&A Exp.	390	414	418	454	523	432	576	472	490	422
Net Profit	1,707	3,028	3,190	1,740	2,258	1,596	3,606	3,970	3,975	5,310
Net Margin	6.1%	17.8%	6.6%	6.8%	5.8%	3.7%	12.5%	6.8%	6.9%	11.1%
Free Cash Flow	10,798	9,229	9,788	8,128	12,850	13,728	14,807	15,477	14,963	18,470
Income Tax	(492)	564	608	257	148	184	488	541	892	968

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	487520	482384	499118	506503	534529	580147	550849	619421	690383	719710
Cash & Equivalents	13456	12801	18158	12888	11237	12696	11905	15540	20521	17720
Accounts Receivable	1014	689	635	633	627	913	1005	1060	1132	1015
Goodwill & Int. Ass.	5140	4976	4704	6762	7496	7825	7413	7636	7786	7776
Total Liabilities	462230	455117	469893	476282	502767	546617	516231	581063	648815	673540
Long-Term Debt	8650	8280	7724	6880	9550	10474	9912	8928	10974	9303
Shareholder's Equity	22477	24385	26505	27854	28558	29946	31010	34505	37430	39840
LTD/E Ratio	0.35	0.31	0.27	0.23	0.31	0.32	0.29	0.24	0.27	0.21

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	0.4%	0.6%	0.7%	0.3%	0.4%	0.3%	0.6%	0.7%	0.6%	0.8%
Return on Equity	7.6%	12.9%	12.5%	6.4%	8.0%	5.5%	11.8%	12.1%	11.1%	13.7%
ROIC	5.2%	8.7%	8.8%	4.7%	5.8%	3.7%	8.1%	8.6%	8.0%	9.8%
Shares Out.	1,812	1,836	1,857	1,962	1,973	1,978	1,983	1,958	1,941	1,946
Revenue/Share	14.87	9.12	25.56	13.00	19.74	22.01	14.46	29.89	29.62	24.53
FCF/Share	5.72	4.96	5.20	4.11	6.50	6.91	7.45	7.89	7.70	9.49

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

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