



# Manulife Financial Corporation (MFC)

Updated November 20<sup>th</sup>, 2023 by Nikolaos Sismanis

## Key Metrics

|                             |         |  |       |                                  |            |
|-----------------------------|---------|--|-------|----------------------------------|------------|
| <b>Current Price:</b>       | \$19.17 | <b>5 Year CAGR Estimate:</b>               | 10.9% | <b>Market Cap:</b>               | \$34.8 B   |
| <b>Fair Value Price:</b>    | \$20.00 | <b>5 Year Growth Estimate:</b>             | 5.0%  | <b>Ex-Dividend Date:</b>         | 11/21/2023 |
| <b>% Fair Value:</b>        | 96%     | <b>5 Year Valuation Multiple Estimate:</b> | 0.9%  | <b>Dividend Payment Date:</b>    | 12/19/2023 |
| <b>Dividend Yield:</b>      | 5.6%    | <b>5 Year Price Target</b>                 | \$26  | <b>Years Of Dividend Growth:</b> | 9          |
| <b>Dividend Risk Score:</b> | D       | <b>Retirement Suitability Score:</b>       | B     | <b>Rating:</b>                   | 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 8<sup>th</sup>, 2023, Manulife Financial reported its Q3 results for the period ending September 30<sup>th</sup>, 2023. Core earnings (excluding investment gains/losses) came in at \$1.3 billion, up 28% compared to last year. The increase in core earnings was driven by an increase in expected investment earnings related to higher investment yields, business growth, and higher returns on surplus assets net of higher cost of debt financing.

Core EPS for the quarter was \$0.67, which was 35% higher year-over-year. Year-to-date, the company repurchased and retired about \$950 million worth of its outstanding shares, which explains the additional growth in the per-share metric versus the aggregate core earnings.

For U.S. investors, the exchange rate of CAD against the USD remained relatively stable during the quarter. Hence, FX rates didn't materially impact results. We forecast FY2023 EPS of \$2.50. At the current FX rates, Manulife's present annualized DPS of C\$1.46 implies an annualized rate of \$1.07.

## Growth on a Per-Share Basis

| Year                      | 2013   | 2014   | 2015   | 2016   | 2017   | 2018   | 2019   | 2020   | 2021   | 2022   | 2023          | 2028          |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| <b>EPS</b>                | \$1.54 | \$1.57 | \$0.76 | \$1.06 | \$0.78 | \$1.71 | \$2.14 | \$2.31 | \$2.81 | \$2.72 | <b>\$2.50</b> | <b>\$3.19</b> |
| <b>DPS</b>                | \$0.49 | \$0.49 | \$0.48 | \$0.55 | \$0.65 | \$0.67 | \$0.77 | \$0.88 | \$0.89 | \$0.97 | <b>\$1.07</b> | <b>\$1.50</b> |
| <b>Shares<sup>1</sup></b> | 1,836  | 1,857  | 1,962  | 1,973  | 1,978  | 1,983  | 1,958  | 1,941  | 1,942  | 1,910  | <b>1,812</b>  | <b>1,786</b>  |

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 FY2022, the company achieved net inflows of \$2.45 billion, despite the notable challenges in the capital markets. Specifically, the company recorded inflows of \$0.07 billion from Retirement and \$3.7 billion from Asset Management, offset by outflows of \$1.2 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

<sup>1</sup> Share count is in millions.

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slightly affected by currency effects. We expect the dividend to grow by ~7% in the medium-term, lower than the company's latest increase of 11% and closer to its historical average.

## Valuation Analysis

| Year      | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | Now  | 2028 |
|-----------|------|------|------|------|------|------|------|------|------|------|------|------|
| Avg. P/E  | 10.7 | 13.0 | 22.4 | 12.9 | 22.1 | 10.5 | 8.4  | 7.4  | 7.1  | 6.7  | 7.7  | 8.0  |
| Avg. Yld. | 3.0% | 2.4% | 2.8% | 4.0% | 3.8% | 3.7% | 4.3% | 5.2% | 4.6% | 5.3% | 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 the low end of its historical average. However, based on the company's growth prospects and the current interest rates environment, we believe that the stock is not far away from its fair value. A forward P/E of around 8.0 in the medium-term seems reasonable. The company ended the quarter with a book value/share of C\$22.42 (\$13.37), meaning shares are currently trading over book value. However, this is likely the result of a compression in the valuation of Manulife's assets due to higher rates. The gap should normalize over time. In addition, the 5.6% yield is noteworthy and should bolster total returns.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year   | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2028 |
|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| Payout | 32%  | 31%  | 63%  | 52%  | 83%  | 39%  | 36%  | 38%  | 32%  | 36%  | 43%  | 47%  |

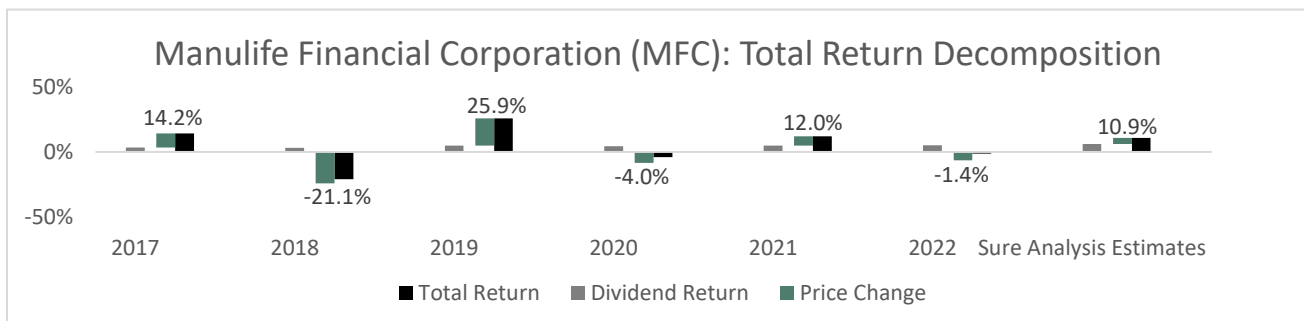
Manulife's dividend should be well covered by the underlying income, with the payout ratio currently at 43%. The company enjoys several qualities, such as great brand value due to its obsession with customer satisfaction, a clear long-term underwriting strategy that has shifted smoothly online, and a healthy financial leverage ratio, currently at 25.2%, very close to the company's target of 25%. However, the company faces several risks.

The insurance industry can also be quite competitive, with disruptive up-and-coming companies, such as Lemonade, 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 and the possibility of a small valuation expansion, is projected to result in annualized total returns of 10.9% through 2028. Still, 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                  | 2013   | 2014   | 2015   | 2016   | 2017   | 2018   | 2019   | 2020   | 2021   | 2022   |
|-----------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| <b>Revenue</b>        | 16,980 | 48,070 | 25,710 | 39,033 | 43,711 | 28,755 | 58,635 | 57,560 | 47,730 | 11,750 |
| <b>SG&amp;A Exp.</b>  | 4,485  | 4,322  | 4,874  | 5,282  | 5,581  | 6,140  | 5,791  | 5,605  | 6,244  | 5,981  |
| <b>D&amp;A Exp.</b>   | 414    | 418    | 454    | 523    | 432    | 576    | 472    | 490    | 422    | 414    |
| <b>Net Profit</b>     | 3,028  | 3,190  | 1,740  | 2,258  | 1,596  | 3,606  | 3,970  | 3,975  | 5,310  | 5,521  |
| <b>Net Margin</b>     | 17.8%  | 6.6%   | 6.8%   | 5.8%   | 3.7%   | 12.5%  | 6.8%   | 6.9%   | 11.1%  | 47.0%  |
| <b>Free Cash Flow</b> | 9,229  | 9,788  | 8,128  | 12,850 | 13,728 | 14,807 | 15,477 | 14,963 | 18,470 | 16,630 |
| <b>Income Tax</b>     | 564    | 608    | 257    | 148    | 184    | 488    | 541    | 892    | 968    | 1,203  |

## Balance Sheet Metrics

| Year                            | 2013   | 2014   | 2015   | 2016   | 2017   | 2018   | 2019   | 2020   | 2021   | 2022   |
|---------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| <b>Total Assets</b>             | 482384 | 499118 | 506503 | 534529 | 580147 | 550849 | 619421 | 690383 | 719710 | 625510 |
| <b>Cash &amp; Equivalents</b>   | 12801  | 18158  | 12888  | 11237  | 12696  | 11905  | 15540  | 20521  | 17720  | 14,110 |
| <b>Accounts Receivable</b>      | 689    | 635    | 633    | 627    | 913    | 1005   | 1060   | 1132   | 1015   | 1,067  |
| <b>Goodwill &amp; Int. Ass.</b> | 4976   | 4704   | 6762   | 7496   | 7825   | 7413   | 7636   | 7786   | 7776   | 7751   |
| <b>Total Liabilities</b>        | 455117 | 469893 | 476282 | 502767 | 546617 | 516231 | 581063 | 648815 | 673540 | 583970 |
| <b>Long-Term Debt</b>           | 8280   | 7724   | 6880   | 9550   | 10474  | 9912   | 8928   | 10974  | 9303   | 9104   |
| <b>Shareholder's Equity</b>     | 24385  | 26505  | 27854  | 28558  | 29946  | 31010  | 34505  | 37430  | 39840  | 35410  |
| <b>LTD/E Ratio</b>              | 0.31   | 0.27   | 0.23   | 0.31   | 0.32   | 0.29   | 0.24   | 0.27   | 0.21   | 0.23   |

## Profitability & Per Share Metrics

| Year                    | 2013  | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  | 2021  | 2022  |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| <b>Return on Assets</b> | 0.6%  | 0.7%  | 0.3%  | 0.4%  | 0.3%  | 0.6%  | 0.7%  | 0.6%  | 0.8%  | 0.8%  |
| <b>Return on Equity</b> | 12.9% | 12.5% | 6.4%  | 8.0%  | 5.5%  | 11.8% | 12.1% | 11.1% | 13.7% | 14.7% |
| <b>ROIC</b>             | 8.7%  | 8.8%  | 4.7%  | 5.8%  | 3.7%  | 8.1%  | 8.6%  | 8.0%  | 9.8%  | 10.4% |
| <b>Shares Out.</b>      | 1,836 | 1,857 | 1,962 | 1,973 | 1,978 | 1,983 | 1,958 | 1,941 | 1,946 | 1,913 |
| <b>Revenue/Share</b>    | 9.12  | 25.56 | 13.00 | 19.74 | 22.01 | 14.46 | 29.89 | 29.62 | 24.53 | 89.09 |
| <b>FCF/Share</b>        | 4.96  | 5.20  | 4.11  | 6.50  | 6.91  | 7.45  | 7.89  | 7.70  | 9.49  | 8.69  |

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

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