



# Manulife Financial Corporation (MFC)

Updated February 17<sup>th</sup>, 2024 by Nikolaos Sismanis

## Key Metrics

<b>Current Price:</b>	\$19.17	<b>5 Year CAGR Estimate:</b>	13.1%	<b>Market Cap:</b>	\$44.6 B
<b>Fair Value Price:</b>	\$20.00	<b>5 Year Growth Estimate:</b>	5.0%	<b>Ex-Dividend Date:</b>	02/27/2024
<b>% Fair Value:</b>	87%	<b>5 Year Valuation Multiple Estimate:</b>	2.8%	<b>Dividend Payment Date:</b>	03/19/2024
<b>Dividend Yield:</b>	6.2%	<b>5 Year Price Target</b>	\$28	<b>Years Of Dividend Growth:</b>	10
<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 February 14<sup>th</sup>, 2024, Manulife Financial increased its dividend by 9.6% to C\$0.40 (\$0.2951).

On the same day, Manulife Financial reported its Q4 and full-year results for the period ending December 31<sup>st</sup>, 2023. Core earnings (excluding investment gains/losses) came in at \$1.35 billion, up 15% 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 \$0.69, which was 20% higher year-over-year. For the year, core EPS was \$2.60, up 17% year-over-year. GAAP EPS was \$1.98. In 2023, the company repurchased and retired about \$2.0 billion 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 FY2024 EPS of \$2.75. At the current FX rates, Manulife's present annualized DPS of C\$1.60 implies an annualized rate of \$1.07.

## Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>EPS</b>	\$1.57	\$0.76	\$1.06	\$0.78	\$1.71	\$2.14	\$2.31	\$2.81	(\$0.85)	\$1.98	<b>\$2.75</b>	<b>\$3.51</b>
<b>DPS</b>	\$0.49	\$0.48	\$0.55	\$0.65	\$0.67	\$0.77	\$0.88	\$0.89	\$0.97	\$1.10	<b>\$1.19</b>	<b>\$1.67</b>
<b>Shares<sup>1</sup></b>	1,857	1,962	1,973	1,978	1,983	1,958	1,941	1,942	1,910	1,834	<b>1,834</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 FY2023, the company achieved net inflows of \$3.3 billion, despite the notable challenges in the capital markets. Specifically, even though the company recorded outflows of \$3 billion and \$0.4 billion from Retirement and Retail, respectively, Asset Management more than offset these declines, seeing inflows of over \$6.6 billion. 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 9.6% and closer to its historical average.

## Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	13.0	22.4	12.9	22.1	10.5	8.4	7.4	7.1	---	9.0	7.0	8.0
Avg. Yld.	2.4%	2.8%	4.0%	3.8%	3.7%	4.3%	5.2%	4.6%	6.2%	4.4%	6.2%	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. Based on Manulife's growth prospects and the current interest rates environment, we believe that the stock is modestly undervalued. 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\$22.34 (\$16.56), meaning shares are currently trading over book value. However, this is likely due to a compression in the valuation of Manulife's assets due to higher rates. The gap should normalize over time. In addition, the 6.2% yield is noteworthy and should bolster total returns.

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

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	31%	63%	52%	83%	39%	36%	38%	32%	---	56%	43%	48%

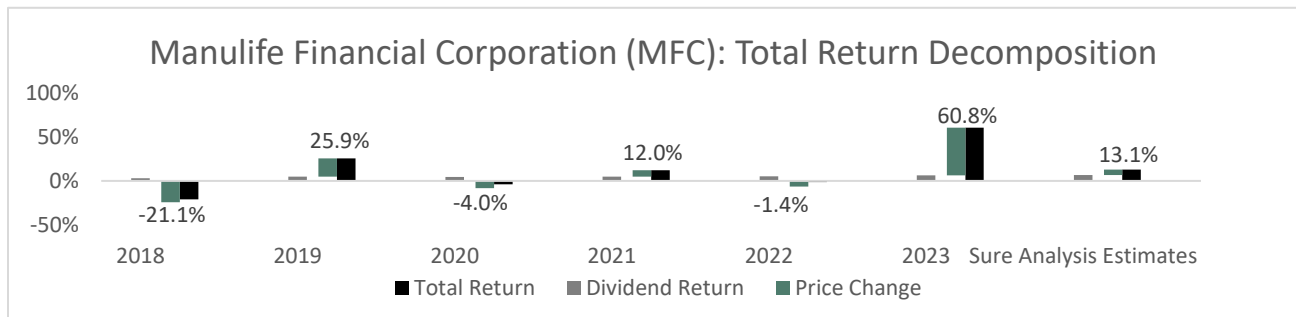
Manulife's dividend should be well covered by the underlying income, with the payout ratio currently at 43%. The company enjoys several qualities, such as great brand value due to its obsession with customer satisfaction, a clear long-term underwriting strategy that has shifted smoothly online, and a healthy financial leverage ratio, currently at 24.3%, 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 our growth metrics and the possibility of a valuation expansion, is projected to result in annualized total returns of 13.1% through 2029. 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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