



Manulife Financial Corporation (NYSE: MFC)

Devils Advocate Report

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<div>LISTING</div> <div>NYSE</div>	<div>SECTOR</div> <div>Financial Services</div>	<div>INDUSTRY</div> <div>Insurance</div>	<div>CURRENT PRICE</div> <div>13.98</div>
<div>REVENUE</div> <div>74,343B</div>	<div>MARKET CAP</div> <div>27,081B</div>	<div>BETA</div> <div>1.18</div>	<div>PE RATIO</div> <div>8.28</div>

- Manulife Financial Corporation, together with its subsidiaries, provides financial advice, insurance, and wealth and asset management solutions for individuals, groups, and institutions in Asia, Canada, the United States, and internationally.
- The company offers individual life, and individual and group long-term care insurance; and guaranteed and partially guaranteed annuity products through insurance agents, brokers, banks, financial planners, and direct marketing.
- Products range from mutual and exchange-traded funds over group retirement and savings products to and institutional asset management services through agents and brokers affiliated with the company. In addition, the company is involved in property and casualty insurance and reinsurance businesses. Further, it manages timberland and agricultural portfolios; and engages in insurance agency, portfolio and mutual fund management, mutual fund dealer, life and financial reinsurance, and mutual funds marketing businesses. Additionally, the company holds and manages oil and gas properties; holds oil and gas royalties, and foreign bonds and equities; and provides investment management, counseling, advisory, and dealer services.
- As of December 2015, the company employed approximately 34,000 people, had 63,000 agents under contract, and has CA\$935 billion in assets under management and administration. Manulife services over 26 million customers worldwide.
- Manulife is the largest insurance company in Canada and the 28th largest fund manager in the world based on worldwide institutional assets under management.

Industry Analysis:

- Difficult investment environment due to low interest rates.
- High competition from InsurTech companies.
- Economic crisis caused by Covid-19 harms growth prospectives in Asia while an ageing population in developed countries and decreasing sales in life insurances will put pressure on MFC's revenues in western countries.

Company Analysis :

- Since the onset of Covid19, Referring to the latest 1Q20 report Manulife reported a decrease in Core Earnings by 30% and decrease in Net Income attributable to shareholders by 45%.
- Increased economic uncertainty & increased unemployment due to COVID-19 may also result in policyholders seeking sources of liquidity and withdrawing at rates greater.
- A low oil price may continue to have an adverse impact on the value of their oil and gas investments and ALDA portfolio.
- Political risks from developments in Hong-Kong threaten an important market for MFC.

Competitor Analysis:

- Low net margin.
- Impact on earning QoQ worse than compared to peers.
- P/B ratio above industry average.

Technical Analysis:

- The price of MFC is closer to the top of the Bollinger Band which indicates that the stock price will fall.
- The RSI reading is 48 which is higher than the 30 cut-off point, In an uptrend, the RSI is usually above 50, while in a downtrend, it is below 50.
- MACD is above the signal line, indicating further short-medium term growth.
- Based on market conditions, the company has a slow road to recovery.

- The insurance industry is heavily impacted by low interest rates. Regarding the latest monetary policy steps from central banks all over the world, it is highly unlikely to see a significant rise in interest rates in the upcoming years, which means that insurers will continue to suffer from low interest rates.
- Conventional insurance firms face a lot of competition from insurance startups (“Insurtech firms”). These firms threaten to take away market share from established insurance firms by providing customers more personalised services, leveraging data for personalised premium calculation and risk management and tapping onto younger generations by more user friendly interfaces. Conventional insurers like Manulife will have to adapt to these industry shifts or risk losing market share.
- In addition, the lower barriers to entry due to the use of technology used by Insurtech firms lowers the barrier of entry and will therefore result in an increased competition which will put pressure on profit margins of established players.
- Industry growth expected at low single digits and therefore industry trends alone do not provide large upside for future earnings.
- Life insurance sales in North America and Western Europe have been decreasing. However, other products (e.g. fee based products like investment funds) provide alternative revenue sources.
- Demographic shifts in western countries will adversely impact Manulife, since they will have to pay out many life insurances and costs from health insurance rise with an ageing customer base.
- The insurance industry has a high exposure to political risks. For instance, governments have a lot of power in regulating how money for insurances and investment funds can be invested and whether they can be used for subsidised pension schemes.
- Asia’s growing middle-class presents an attractive target group for insurers. However, due to the economic crisis caused by the corona virus, economic growth has taken a big dent which will slow this development.

- ManuLife is an Insurance company spread across Canada, USA and Asia in its Insurance Business and also has divisions in Global Wealth & Asset Management, Investments of Insurance Premiums and also has Properties in Oil & Gas sectors as well.
- Since the onset of Covid19, Referring to the latest 1Q20 report Manulife reported a decrease in Core Earnings by 30% and decrease in Net Income attributable to shareholders by 45%.
- The Annualized premium equivalent (“APE”) sales were \$1.6 billion in 1Q20, a decrease of 9% compared to 1Q19. Along with it the Assets under management and administration (“AUMA”) as at March 31, 2020 was \$1.2 trillion, a decrease of 8% compared with December 31, 2019. The primary driver of the decrease was the unfavourable impact of markets.

Analysing Manulife by factoring in different Risk Factors :

Strategic Risk Factors:

1. Manulife claims that “The ongoing COVID-19 pandemic if prolonged can adversely impact the financial results in future periods as a result of reduced new business, reduced asset-based fee revenue, and net unfavourable policyholder experience including claims experience and premium persistency. The uncertainty around the expected duration of the pandemic and the measures put in place by governments to respond to it could further depress business activity and financial markets, which could lead to lower net income attributed to shareholders”.
2. Manulife claims that “although we expect that our digital capabilities and tools should enable us to reasonably conduct business while emergency measures are in place, there can be no assurance these or other strategies taken to address adverse impacts related to the COVID-19 will be successful” which I believe is like a Beta-test for them & it can go in either direction hence a risky proposition.

Product Risk Factors:

1. The adverse experience relative to the assumptions used in the design and pricing of their insurance products and services could significantly impact their operations and financial condition. This may result in an increase in policy liabilities and a decrease in net income attributable to shareholders.
2. Increased economic uncertainty & increased unemployment due to COVID-19 may also result in policyholders seeking sources of liquidity and withdrawing at rates greater than we previously expected. If policyholder lapse and surrender rates significantly exceed their expectations, it could have a material adverse effect on their business, financial condition, results of operations and cash flows.

Operational Risk Factors

1. Their global processing centres' operational capacity has been significantly impacted due to strict government measures to lock down businesses and limit the movement of people within their jurisdictions, which has resulted in slower processing times and lower than expected customer experience.

Market Risk Factors

1. The significant increase in global oil production and supply experienced in 1Q20 compounded downward pressure on oil prices that were already declining as a result of measures taken to mitigate COVID-19. We expect these events may continue to have an adverse impact on the value of their oil and gas investments and ALDA portfolio.
2. Along with the US-China trade war, there has been recent updates on Hongkong being removed of their Unique status. Now Canada, Australia, UK and the USA have all suspended their extradition treaties with Hongkong and since ManuLife gets a good chunk of their revenues from Hongkong and China business will get more tough with newer and stricter regulations in place.
3. The economic downturn have created significant volatility and declines in financial and commodity markets. Central banks have announced emergency interest rate cuts, while governments are implementing unprecedented fiscal stimulus packages to support economic stability. The pandemic could result in a global recessionary environment with continued market volatility and low or negative interest rates, which may continue to impact ManuLife's net income attributed to shareholders. Their investment portfolio has been, and may continue to be, adversely affected as a result of market developments from the COVID-19 pandemic and related uncertainty.

Name	Revenue (USD billion)	Sales growth (QoQ)	P/B	LICAT Ratio	Net margin	P/E	PEG	Price to Sales	Market Cap (USD billion)
Manulife Financial Corporation	74.343	-14.30%	0.71	155%	6.55%	8.06	0.91	0.49	27.03
Sun Life Financial	25.06	-36.0%	1.37	140%	7.85%	13.33	1.85	0.93	23.36
Aflac Inc.	21.84	-8.8%	1.00	N/A	14.1%	9.17	5.73	1.20	26.14
Prudential Financial	63.45	-11.1%	0.42	135%	5.50%	8.91	0.99	0.4	25.65
MetLife	71.76	12.3%	0.49	135%	10.02%	4.03	2.47	0.48	34.61
ING Groep NV	33.01	0.5%	0.46	N/A	14.45%	5.72	14.29	0.88	29.10
Swiss Re AG	49.17	N/A	0.79	N/A	2.30%	33.5	N/A	0.50	21.50

Weakness:

- Manulife, in spite their higher Revenues and scale, they still generate lesser Net Margin compared to its peers .
- Sales growth QoQ since the Covid19 has affected ManuLife by a greater percentage than most of its peers.
- Even though the P/B ratio is low, its equivalent to the Industry Average and hence not quite an advantage.

Strengths:

- A very high LICAT ratio. The Life Insurance Capital Adequacy Test (LICAT) measures a company's ability to meet obligations to its policyholders. OSFI requires life insurance companies to maintain a LICAT ratio of at least 90% and expects their internal targets to be at least 100%.
- A low PEG ratio indicating there is still value in the company

Overall Manulife is spread across Insurance, AM, Property in Oil and Gas industry which in a way seems that they are trying their hands on different things and not focussing on a single area to excel in, and hence margins are low.

2 Year Stock Price History



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