

MANULIFE FINANCIAL CORP. (MFC - TSX - \$37.35)

Recommendation

BUY

Risk

Low

Target Price

\$46.00

Price

\$37.35

52-Week Range

\$33.77 – 44.23

% Below High

-15.6%

% Above Low

10.6%

Shares O/S

1,501 million

Market Cap

\$56 billion

Average Daily Volume

3,190,126

Year-End

December 31

C\$	EPS	Multi.
2007a	\$2.83	13.2x
2008e	\$3.03	12.2x
2009e	\$3.35	11.1x
Book Value	\$15.73	2.4x

	Amount	Yield
Dividend	\$0.96	2.6%

Analysts

Robin Cornwell



Data Source: www.BigCharts.com

Q4/07 EARNINGS BEAT OUR ESTIMATE CONSTANT CURRENCY EPS UP 23% Y/Y OUTLOOK TEMPERED BUT POSITIVE FOR ACQUISITIONS

CONCLUSION: BUY – 12 MONTH TARGET MAINTAINED AT \$46.00

Q4/07 of \$0.75 per share up 7% Y/Y. On a constant currency basis EPS increased by 23%. The earnings were driven by reserve releases of about \$0.06 per share and investment gains in the U.S. protection divisions. Reported ROE was 20.5%.

For 2007, MFC reported EPS (fd) of \$2.83 (excluding a restructuring charge in Q1/07), a 13% increase over \$2.51 reported in 2006. On a constant currency basis net income would have reported a Y/Y gain of 20%. Note that about 75% of MFC earnings are reported in foreign currencies. The current dividend of \$0.96 per share is 20% higher than last year and represents a payout ratio of 34% on 2007 EPS. ROE for the year was 18.4% up from 16.8% in 2006.

Our 2008 EPS forecasts have been lowered modestly to \$3.03 from \$3.08 reflecting the current market uncertainty and lower AUM growth expected this year. We have introduced our 2009 EPS estimate at \$3.35 for a gain of 9%. We expect that the stronger \$C relative to the \$US will continue to be a negative for 2008, however MFC's share buy back program could be a partial offset. Excess capital at MFC should allow it to take advantage of acquisition opportunities in 2008. We expect the dividend to be increased further over the next 12 months to the \$1.08 per share level for an increase of 13%.

We continue to recommend MFC as a BUY based on (1) earnings are extremely well diversified globally (50% U.S.) and well positioned in Asia, (2) we are very impressed with the growth in wealth management and believe MFC is pushing more in this direction (3) Canada remains solid, (4) excess capital should support acquisitions, share repurchases and dividend increases and (5) an aggressive share buy back program. Total 12-month expected return is 26.0%.

Valuation

We believe MFC has very strong fundamentals as discussed above and continues to justify a 5% premium valuation to its peers. We have maintained our 12-month share price target at \$46.00.

Equity Market Sensitivity

Management indicated that a 10% decline in equity markets followed by a resumption of normal long-term growth in line with management's assumptions would negatively impact net income by about \$350 million. We estimate that this would translate into \$0.23 per share or 8% on our 2008 EPS estimate.

Other Quarterly Highlights

- MFC reported operating Q4/07 net income of \$1,144 million or \$0.75 per share (fd), up 7% Y/Y and up modestly from last quarters \$1,070 million. Constant currency net earnings were up 19% Y/Y and EPS up 23% Y/Y.
- Total FUM (Funds Under Management) at quarter end were \$396 billion down 4% Y/Y, however again if the currency impact is removed the it was closer to flat Y/Y.
- Total U.S. Protection reported Q4/07 net income of US\$302 up from US\$148 million. Experience gains were very strong. Of the total, JH Life's net income was US\$190 million up 61% Y/Y driven by favourable investment gains. John Hancock Life sales were strong at US\$316 million up 54% Y/Y driven by solid Variable Annuity sales up 27% Y/Y. JH Long Term Care (LTC) net income was US\$112 million also driven by favourable investment gains. The distribution partnership established with Edward Jones is now well underway but will take several years to fully integrate.
- U.S. Wealth Management reported Q4/07 net income of US\$269 million up 2% Y/Y. Mutual fund assets declined by 10% Y/Y while total AUM increased 5% Y/Y.
- Canadian division reported steady earnings with net income in Q4/07 of \$256 million up 4% Y/Y. Individual Insurance sales were strong at \$82 million in the quarter up 14% Y/Y and up 15% for the year. Wealth management reported Y/Y increase in net income of 11% driven by new product introduction. Segregated fund sales increased 42% Y/Y driven by the Income Plus product. Manulife Bank continued to experience strong loan growth.
- Asia and Japan reported an earnings gain of 7% Y/Y. The earnings were driven by weaker equity markets in Japan due to turbulent equity markets. However sales were strong particularly in wealth management.
- During the quarter MFC repurchased 3 million shares for \$849 million for a 2007 total of 56 million shares or \$2.2 billion. For 2008 we have revised our share repurchase estimate to 50 million from 40 million.

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