Name of Company	Country of Origin/ Exchange Traded	Sector	Stock Price	Target Price
MANULIFE FINANCIAL CORP	**Canada/ TSX**	**Financial Services - Insurance - Life - Insurance - Life**	**CAD22.84 @ 14 Sep 2018**	**CAD31.99**

COMPANY PROFILE

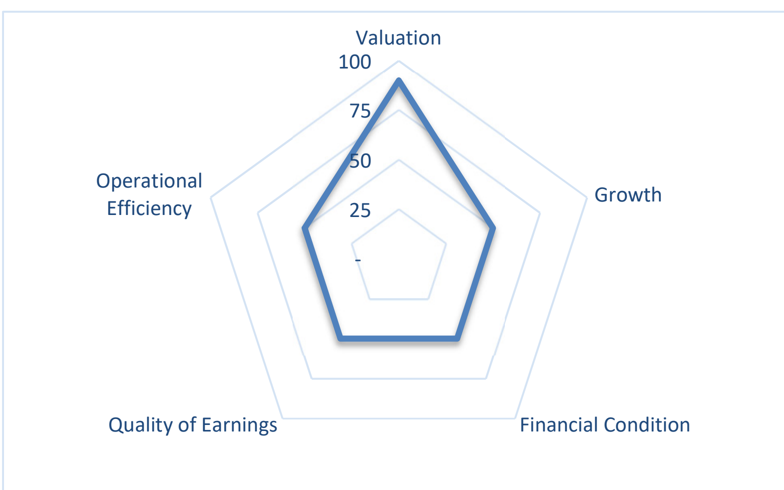
Manulife Financial Corp together with its subsidiaries provides individual life insurance and individual and group long-term care insurance services. Its business segments are Asia Division, Canadian Division, U.S. Division, and Corporate and Other.

Manulife is the largest of the three major Canadian life insurers by market capitalization, ahead of Sun Life and Great-West Life. It provides financial protection and wealth management products and services to individual and group customers in Canada, the United States, and Asia. Manulife markets through the brand name Manulife Financial in Canada and Asia and primarily through the brand name John Hancock in the United States.

Stock Code	MFC
Annual Dividend Yield	3.7%
Market Capitalization	CAD45.31 billion

SUMMARY

Valuation	Based on the Composite Valuation Indicator, the stock has a Target Price of CAD31.99 within a 12-month period. Our Target Price represents upside of 40.1% based on stock price of CAD22.84 as at 14 Sep 2018.
Growth	EPS Growth for the company is moderately positive.
Financial Condition	This analysis is not available for this type of companies.
Quality of Earnings	This analysis is not available for this type of companies.
Operational Efficiency	This analysis is not available for this type of companies.

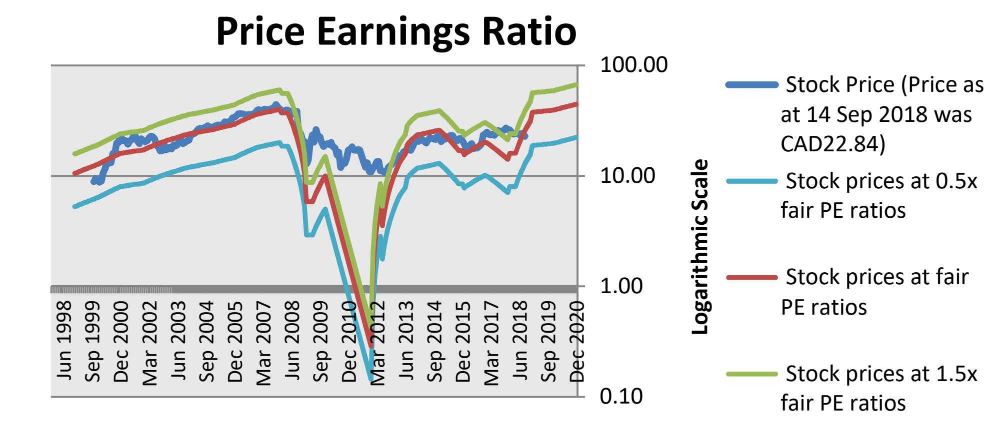


Valuation

We believe in studying various valuation indicators for a stock. This is because while each valuation indicator has its benefits, it also has its shortcomings. Price to Earnings and Price to Cash Flow Ratios are meaningless when the company has negative earnings or cash flows. Price to Sales Ratio is more stable because sales are never negative. However, this does not tell us whether the company is able to sell profitably. Price to Book Ratio gives us an indication as to how much we are paying for the company's assets but assets are not directly related to a company's profitability.

While it is important to value stocks based on multiple indicators, they sometimes lead to differing views on valuation. One indicator may tell you a stock is overvalued while the other tells you it is undervalued. That is why we use our proprietary Composite Valuation Indicator whenever possible as it gives you one conclusion based on the best combination of the different indicators, to tell you whether a stock is under or overvalued. The graphical format allows you to determine whether or not the composite valuation accurately values the stock and gives you confidence to act on the decision.

In addition, we analyze a long history (typically more than 10 years) so that we can take into account the boom and bust cycles in order to determine the "normal" valuation of the company.

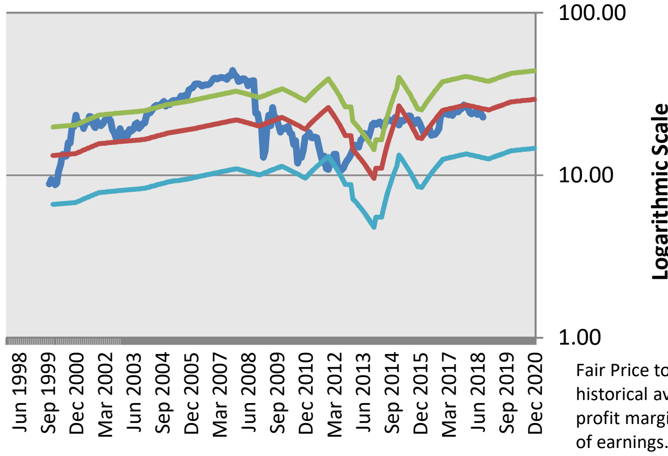


Fair ratios take into account historical average valuation, profit growth, financial condition & quality of earnings.

The Price Earnings (PE) Ratio is the most frequently used valuation indicator for a stock. However, there are times when this ratio cannot be used e.g. when the company reports a loss or profit is so minimal that it results in an abnormally high PE Ratio. Or Net Profit After Tax may be volatile and it is better to use Earnings Before Interest and Tax (EBIT) to value the company. We use the PE Band or Price/EBIT Band to show whether a stock is overvalued or undervalued based on its historical valuation.

At the price of CAD22.84 as at 14 Sep 2018, Manulife Financial Corp is trading at a PE Ratio of 10.4 times last 12 months earnings. This is a 27.7% discount to current fair Price to Earnings Ratio of 14.4 times. (Price based on the fair PE of the company is indicated by the red line.)

Price to Sales Ratio

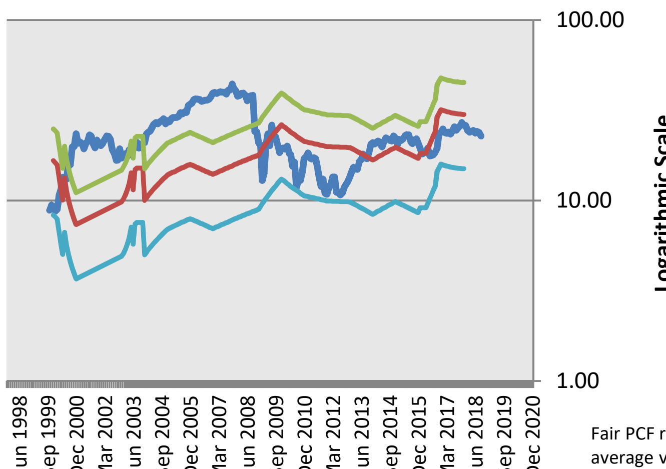


Fair Price to Sales ratios take into account historical average valuation, revenue growth, profit margins, financial condition & quality of earnings.

The Price to Sales Ratio is another commonly used valuation indicator for a stock. It overcomes some of the limitations of the Price Earnings Ratio in that it can be used even when the company is not making a profit or only making minimal profits. However, it should not be used by itself because a company may be achieving sales but not profits.

At the price of CAD22.84 as at 14 Sep 2018, Manulife Financial Corp is trading at a Price to Sales Ratio of 0.8 times last 12 months sales. This is a 11.0% discount to current fair Price to Sales Ratio of 0.9 times.

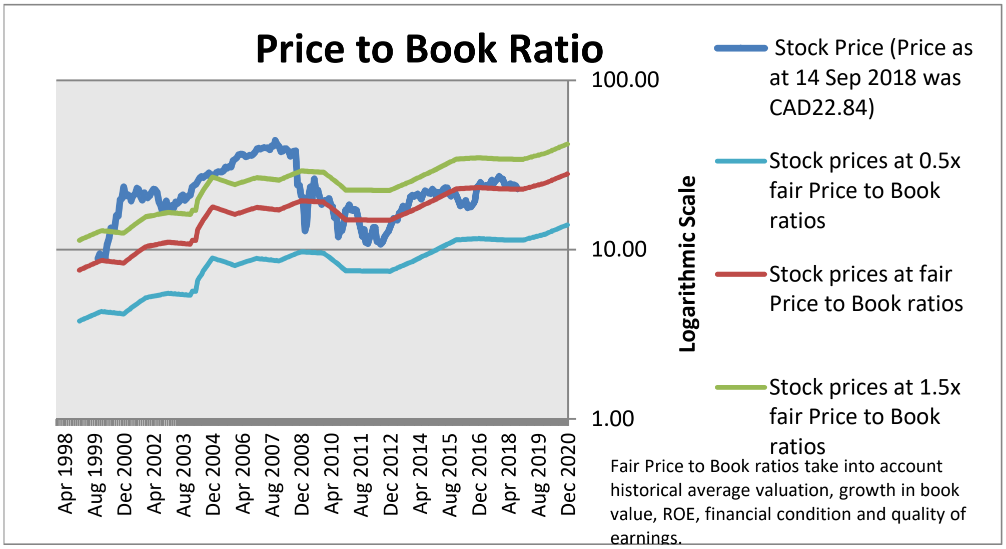
Price to Cash Flow



Fair PCF ratios take into account historical average valuation, cash flow growth, financial condition and quality of earnings.

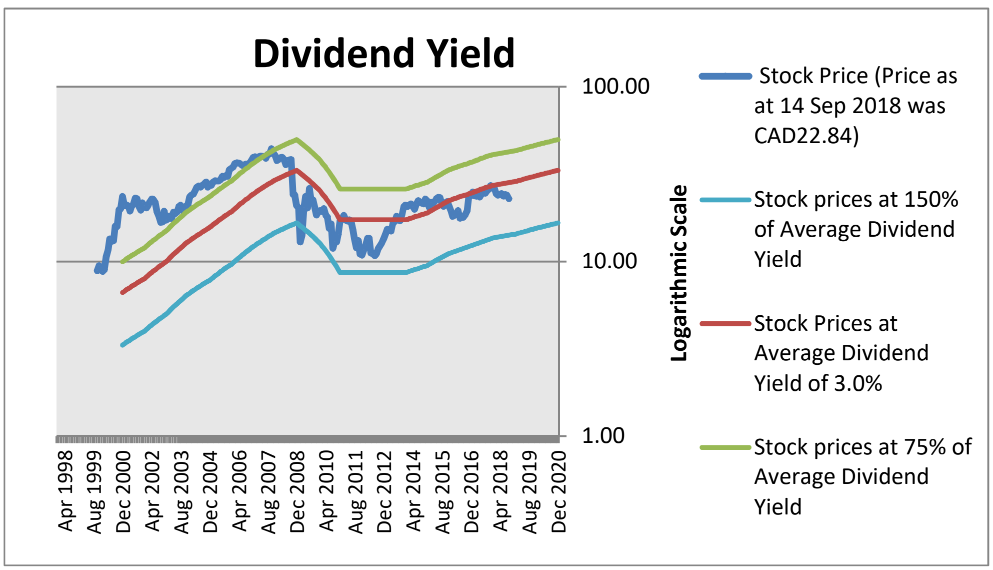
Price to Cash Flow is an alternative method to value shares. This is because accounting profits can be subject to manipulation. Therefore, some investors prefer to value a company based on cash flows generated by the operating activities of the company. It also acts as a reality check to valuation measures such as Price to Earnings and Price to Sales. If a company generates high profits and sales but not operating cash flows, it could be heading for trouble because it is cash that pays the operating expenses. However, the Price to Cash Flow ratio of most firms are volatile and should not be used in isolation to determine the valuation of the stock.

The current Price to Cash Flow ratio of the company cannot be determined e.g. when current cash flow is negative or when estimates are not available.



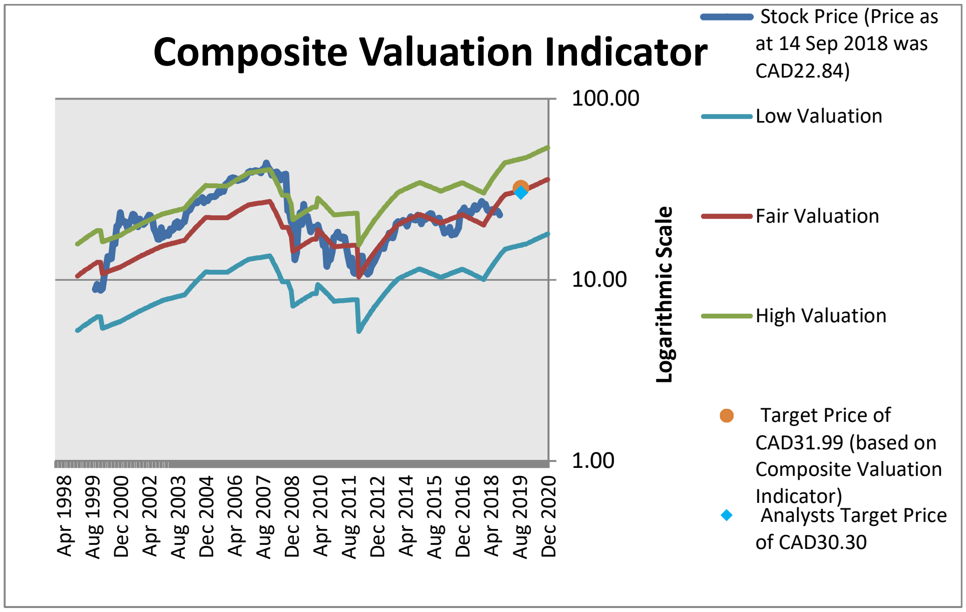
Price to Earnings, Price to Sales and Price to Cash Flow ratios all value a company based on what it is generating (i.e. profits, sales or cash flow). Price to Book ratio is different in that it values a company based on what it owns (i.e. its net assets). This is usually a suitable valuation indicator for a financial institution, which frequently revalues its assets and liabilities, or a company with huge asset base e.g. utilities company.

At the price of CAD22.84 as at 14 Sep 2018, Manulife Financial Corp is trading at a Price to Book Ratio of 1.1 times current book value. This is a 0.0% discount to current fair Price to Book Ratio of 1.1 times.



For stocks that have a history of paying meaningful dividends, the stock price is often dependent on how much dividend the company pays.

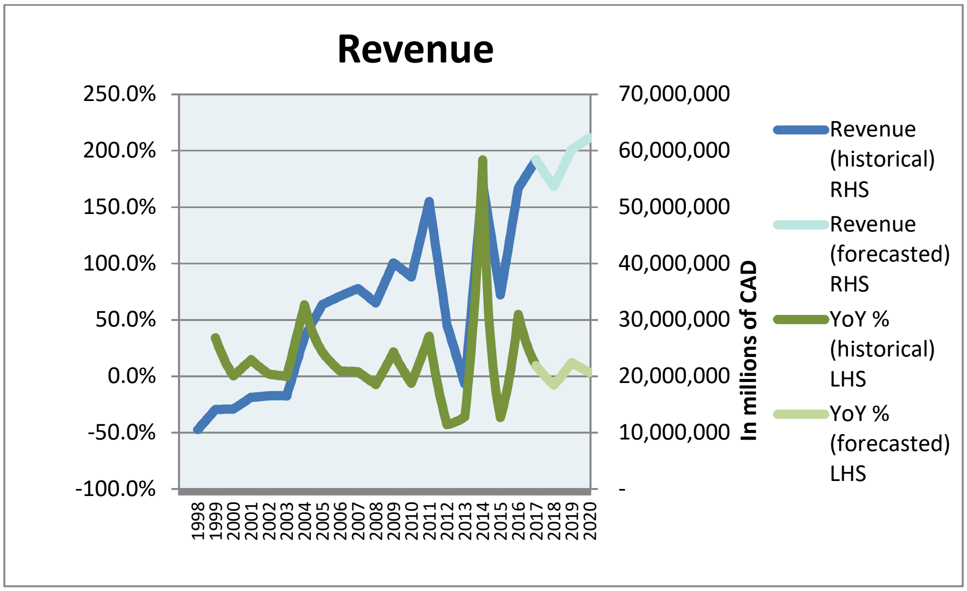
At the price of CAD22.84 as at 14 Sep 2018, Manulife Financial Corp is trading at a Dividend Yield of 3.7%. This is a 19.0% discount to its historical average Dividend Yield of 3.0%. (Note: The lower/higher the dividend yield, the more expensive/cheaper the stock is.)



The Composite Valuation Indicator is derived after finding the combination of valuation indicators that best explains the stock price. It recognizes that looking at a single indicator is dangerous and inadequate. It also overcomes the difficulty of different indicators pointing giving different signals and difficult to act upon if you do not have a composite valuation. Please note, however, that the Composite Valuation Indicator does not account for situations when the market is willing to pay a much higher price for the stock because of an anticipated takeover or some other special event. It is also possible that investors are attributing a lower valuation to the stock than warranted by the near-term outlook because the stock or sector's long-term prospects are poor.

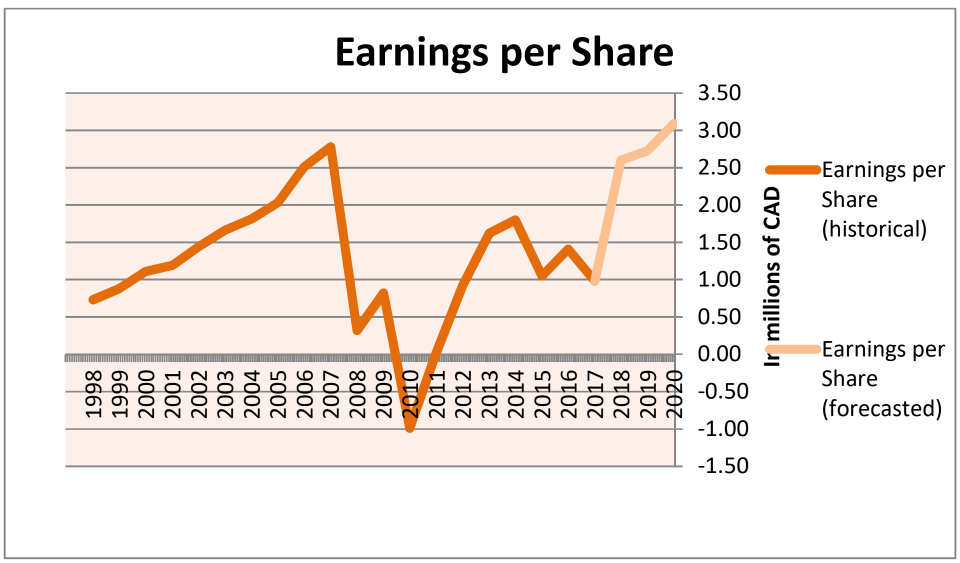
Based on the Composite Valuation Indicator, the stock has a Target Price of CAD31.99 within a 12-month period. Our Target Price represents upside of 40.1% based on stock price of CAD22.84 as at 14 Sep 2018.

Growth



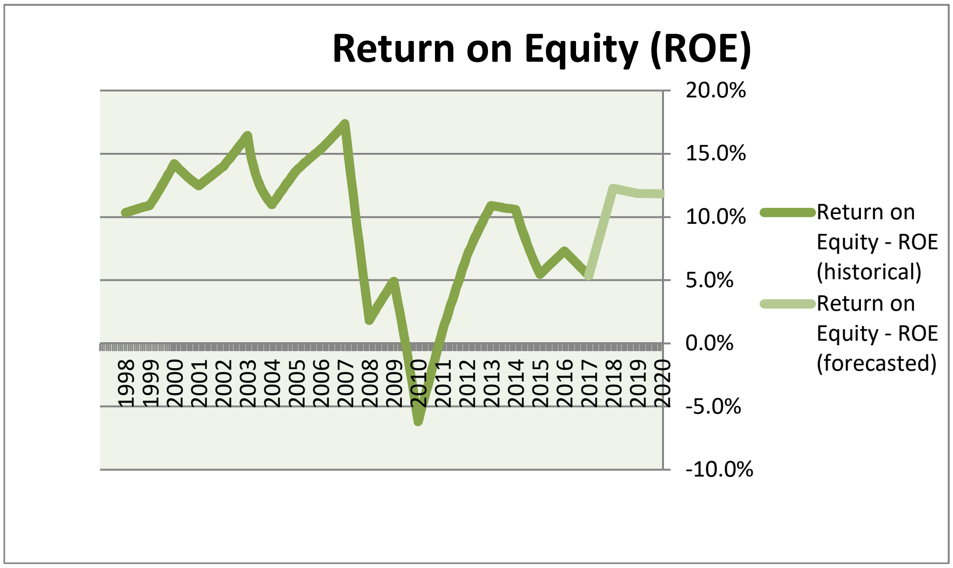
Revenue has been on an uptrend since 1998. Revenue growth has been erratic. Below are analysts' forecasts of revenue for the next few years.

	Total Revenue		YoY growth
2018	53,692,000	million CAD	-7.9%
2019	60,201,000	million CAD	12.1%
2020	62,284,000	million CAD	3.5%



Earnings per Share has been erratic. Below are analysts' forecasts of the growth in EPS for the next few years. Earnings trend can also be seen from the Price to Earnings or Price to EBIT Ratio graphs above.

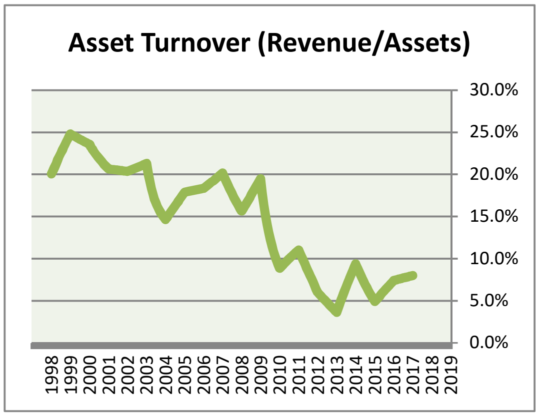
	Earnings per Share		YoY growth
2018	2.60	CAD	165.3%
2019	2.73	CAD	5.0%
2020	3.09	CAD	13.2%

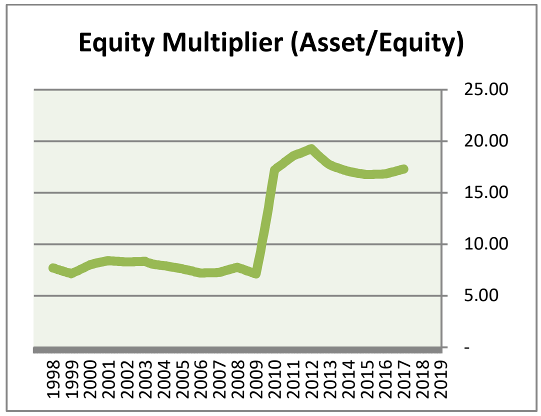


Return on Equity (ROE) measures the amount of profit a company makes with the money that shareholders have invested. A rising ROE is an indication of improving management efficiency. It is also an indication of how fast the company can grow in future through profits that are retained and not distributed as dividends.

When analyzing ROE trends, it is important to know why ROE is going up or down. There are three main ways ROE can improve.
1. If the company is able to generate more sales per dollar of assets (what we call Asset Turnover)
2. When the company is able to improve its Net Profit Margin
3. When the company borrows more (what we call Equity Multiplier)

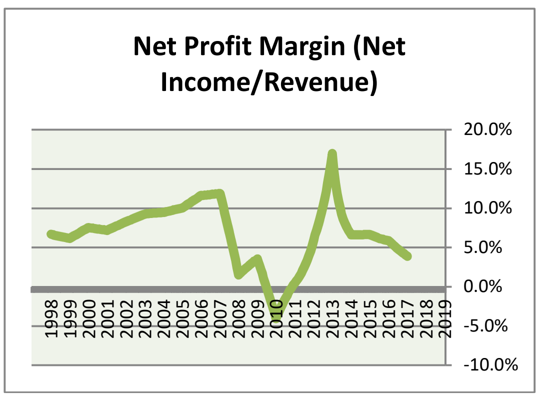
The first two ways are healthy ways to grow its ROE but it may be undesirable for a company to grow its ROE by borrowing more if the company's financial condition is already weak. This is why it is so important to beyond determining whether a company's ROE is improving to determining what the company did to improve its ROE. If the company grew its ROE by borrowing more, it is important to gauge the company's financial condition to see if it is still healthy.
The company's Return on Equity has been deteriorating since 2013. During this period, Asset Turnover contributed positively, Equity Multipler contributed negatively and Net Profit Margin contributed negatively to ROE.





Asset Turnover measures the amount of revenue a company is generating from its assets. Uptrend/downtrend indicates that the company is becoming more/less efficient in the use of its assets.
The company's Asset Turnover has been deteriorating since 1999.

Equity Multiplier measures the extend of borrowings the company has vs. its assets. Uptrend/downtrend indicates that the company is borrowing more/less. Companies borrow more to help them to leverage their operations and improve ROE.
On the other hand, companies may choose to reduce their leverage and have lower ROE.
The company's Earnings Multiplier has been on a downtrend since 2012, which means the company is borrowing less.



Net Profit Margin measures the amount of money the company makes after it deducts all expenses. Uptrend/downtrend indicates that the company is more/less profitable.
The company's Net Profit Margin has been on a downtrend since 2013

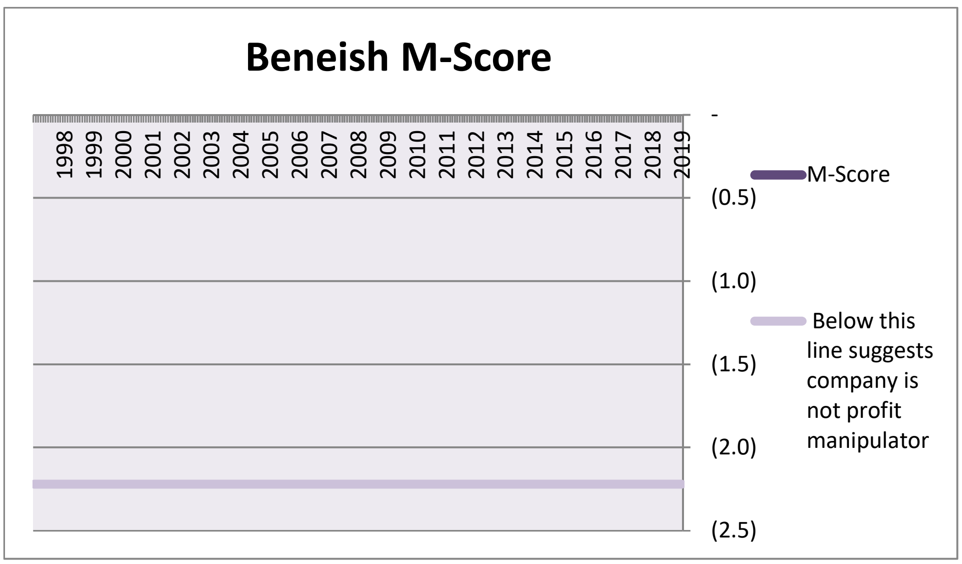
A company may be growing at a fast rate historically but how do I know this rapid growth rate is sustainable? Is the company inflating its earnings through suspicious accounting practices. These questions requires that we look in greater detail at the Quality of Earnings.

Quality of Earnings

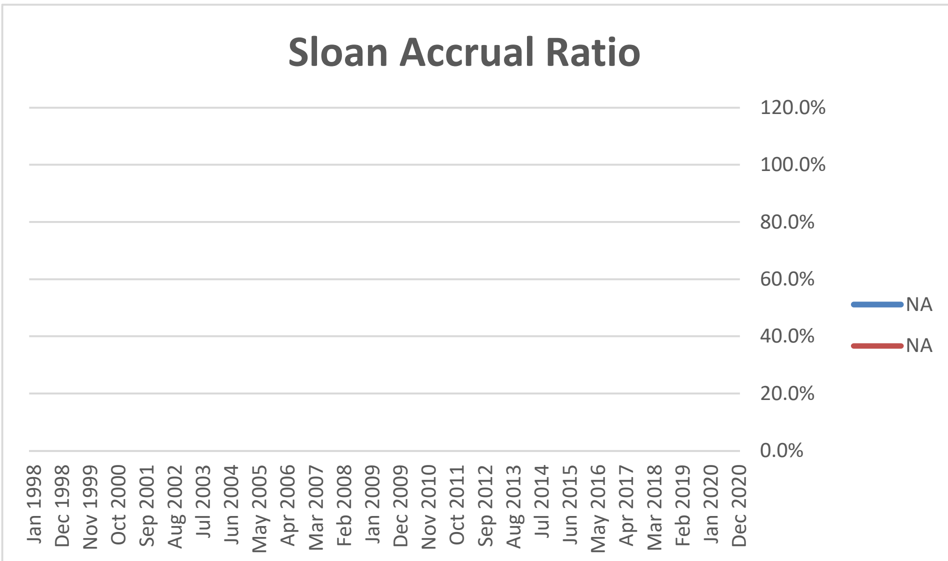
A company's earnings should not be taken at face value. By that we mean that we should look deep into the accounts to gauge the probability that the company may be relying on account techniques to boost earnings. A company that has been showing strong profit growth or is expected to do so usually trades at a high valuation. This may put tremendous pressure on management to announce good growth to the extent of resorting to accounting techniques to do so. On the other hand, a company that is struggling to report growth in its business may also rely on accounting techiques to boost earnings. These methods will catch up with the company one day and when that happens there is usually a large negative earnings surprise and share price decline.

To detect the likelihood of earnings manipulation, two commonly used methods are the Beneish M-Score and the Sloan Accrual Ratio. Since it is difficult for one ratio to catch all occurences of profit manipulation, we put the two scores into a composite to have a better chance to spot earnings manipulation.

The Beneish M-Score is not relevant for this type of companies.

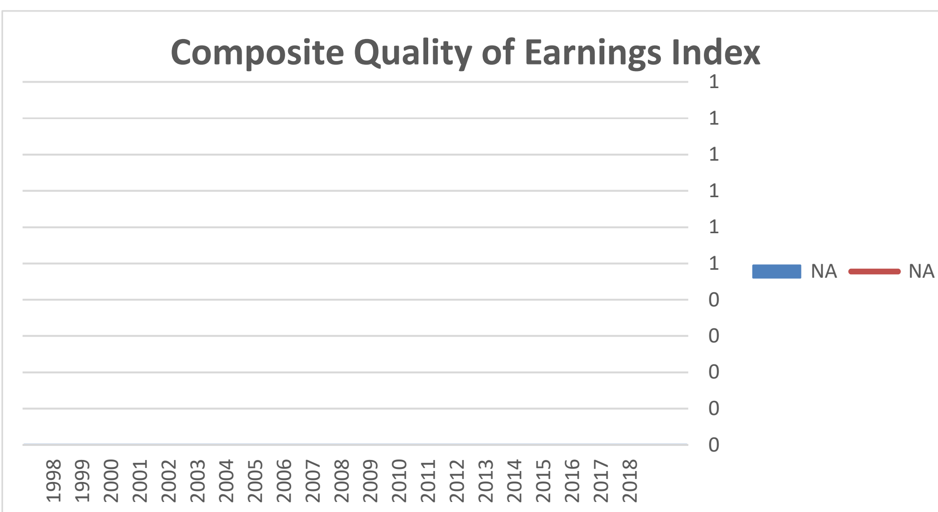


The Sloan Accrual Ratio measures the extent to which a firm's earnings comprise of accrual (i.e. non-cash) items. In other words, the company makes profit but they do not translate to cash because of some of these reasons:
* Sales are made on credit to customers and not yet paid
* Money is spent on buying more inventory
* Increased earnings comes from reducing depreciation expense, which is non-cash
Earnings with high accrual (or non-cash) component are more likely to be reversed in future resulting in earnings disappointment and share price falls.



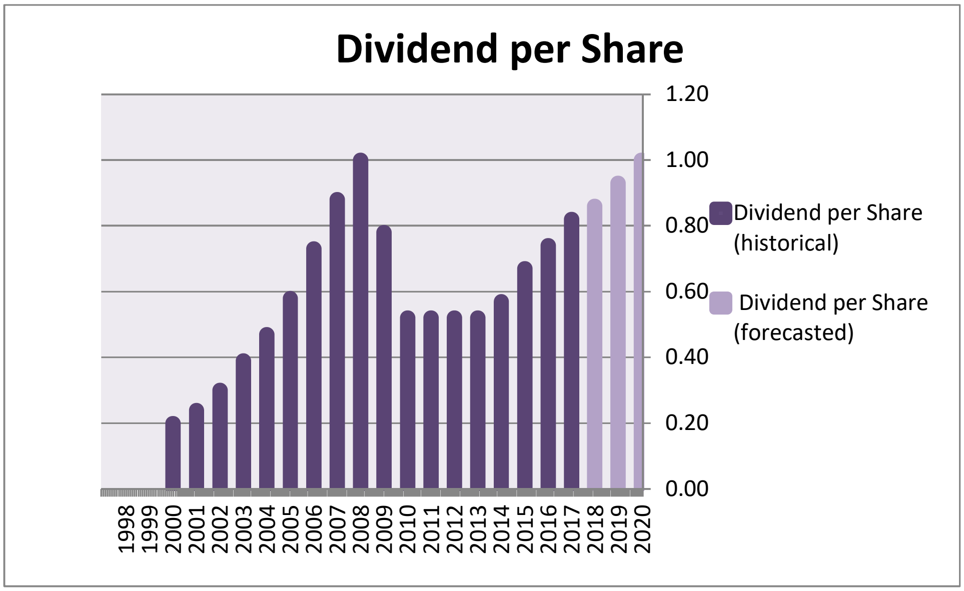
This analysis not relevant for this type of companies.

Since it is not possible for one indicator to capture all instances of earnings manipulation, whenever possible, ProThinker employs both methods to arrive at a Composite Score of the company's earnings quality. A score of 25 and below (the red line) indicates a higher probability that earnings may have been manipulated.



This analysis is not available for this type of companies.

Dividends



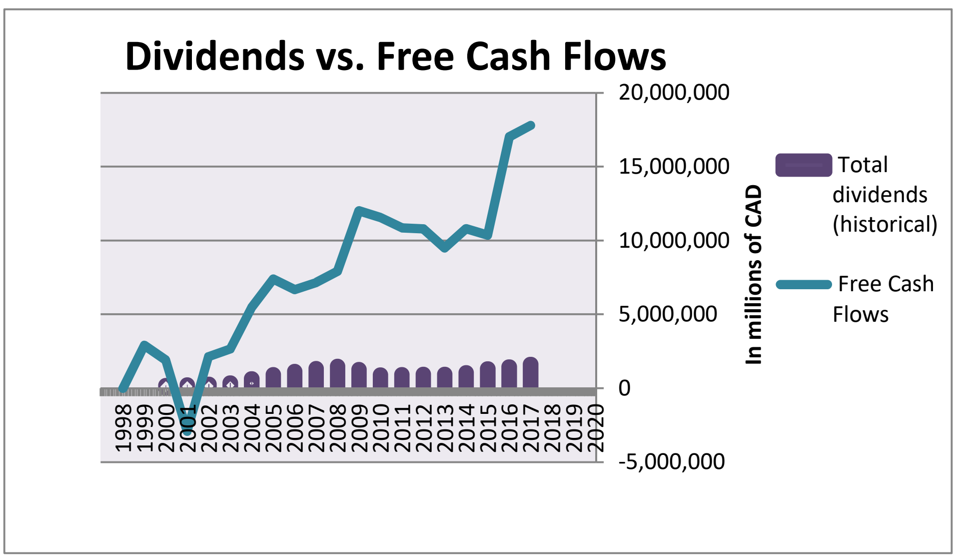
Dividend per share has been on an uptrend since 2013.

Forecasted future dividend per share growth are as follows:

2018	4.9%
2019	8.1%
2020	7.5%

We should not only be concerned about the amount of dividends, we should determine if the dividends paid out by the company are sustainable. One way to do that is to compare dividends paid out to the cash flows that the company is generating.

Free cash flows are not relevant for this company.



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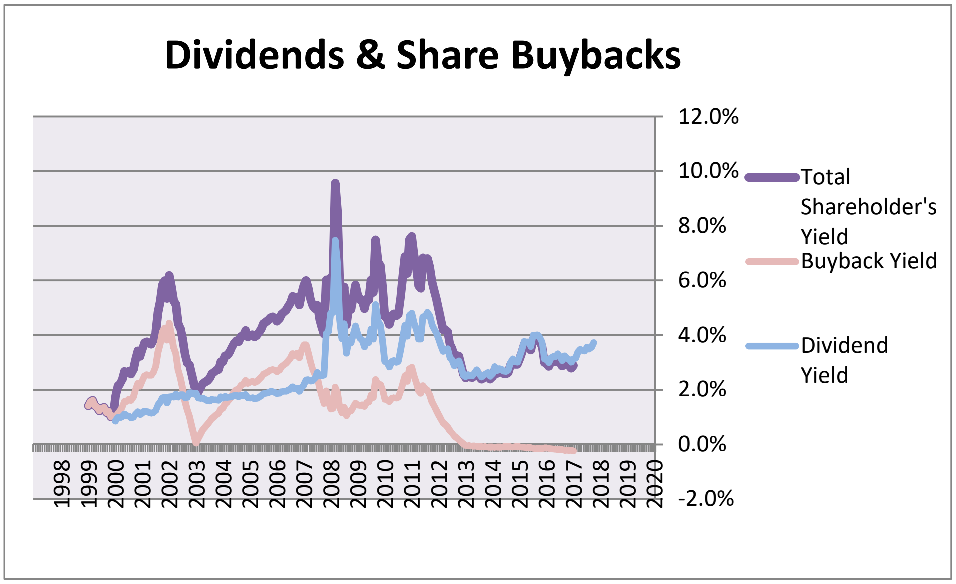
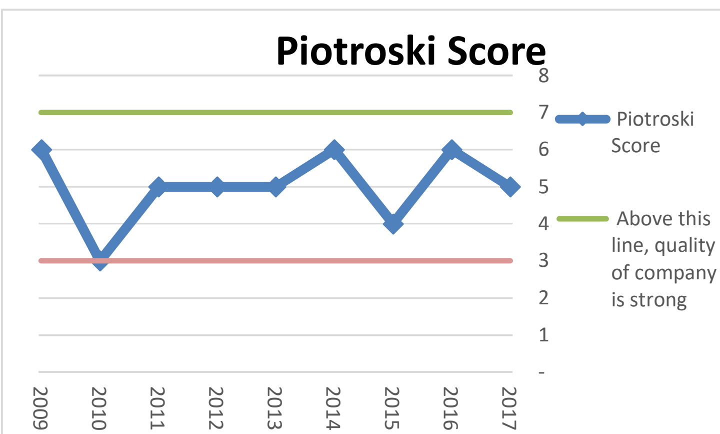


Dividend is not the only way that a company returns money back to shareholders. Any way it could do so is via share buybacks.
Dividend Yield has been erratic. Buyback Yield has been on a downtrend since 2011. Total Shareholder Yield has been erratic.

Operational Efficiency



The Piotroski Score measures the operational efficiency of a company. It is a well-rounded indicator that measures profitability, quality of earnings, financial condition and operating efficiency. Research has show that companies with high Piotroski scores outperform those with low scores. Piotroski scores range from a low of zero to a high of nine based on whether the company passes or fails certain criteria. This measure is not used to evaluate financial institutions as some of the components of the formula are not relevant.

While some of the components of the Piotroski Score may not be available, we can see from the graph above whether the situation of the other variables are improving or deteriorating.

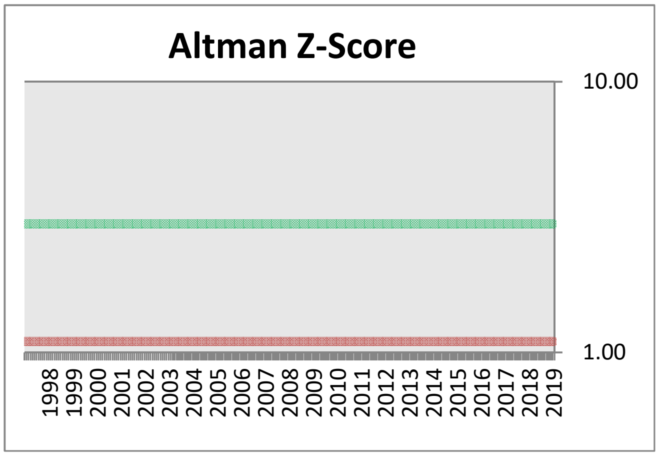
Criteria	Score	
Return on Asset (Net Income / Asset) is positive	1	
Change in Return on Asset is positive over previous year	-	
Return on Asset measures a company's ability to generate profits from the use of its assets.		
Cash Flow Return on Asset (Cash from Operations / Asset) is	1	
Cash Flow Return on Asset higher than Return on Asset	1	
Cash Flow Return on Assets goes one step further to ensure that it is not just paper profits but cash flow that the company is generating.		
Change in long-term debt / Asset is positive (i.e. borrowing less)	1	
Change in Current Ratio (Current Assets / Current Liabilities) is	NA	For this type of companies
Current Ratio is a measure of a company's liquidity position and determines whether it has sufficient liquid assets to meet short-term liabilities.		
Number of shares this year less than last year	-	
The number of shares is compared with the previous year as a company that is not generating healthy cash flow may end up raising new equity and this is indicative of the health of the company.		
Change in Gross Profit Margin is positive	NA	For this type of companies
Gross Profit Margin is a measure of whether the company is selling its products/services at a high enough margin to cover its operating expenses.		
Change in Asset Turnover (Sales / Assets) is positive	-	
Asset Turnover is a measure of how well a company uses its assets to generate sales.		
Total (Piotroski Score)	**5**	

Piotroski Score cannot be calculated for this type of companies.

Financial Condition

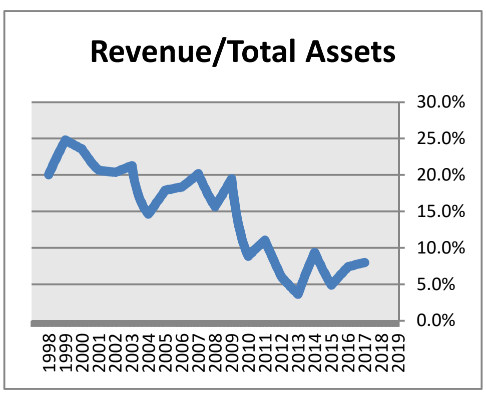
It is important to analyze the financial condition of the company you want to invest in because if a company goes bankrupt, the chances are high that you will lose all your investment. Even if the company does not go bankrupt, the deterioration in financial condition will cause more and more investors to avoid the company and valuation will drop. Weak financial condition also limits the opportunities that a company has to grow its business.

For non-financial institutions, the Altman Z-score is used to determine the financial condition of the company. For banks and credit institutions, the Bank Z-Score is used to measure of the company's solvency risk. It measures the buffer (capitalization and returns) the company has to withstand risk (volatility of returns). There is no composite indicator to measure the financial condition of insurance companies.

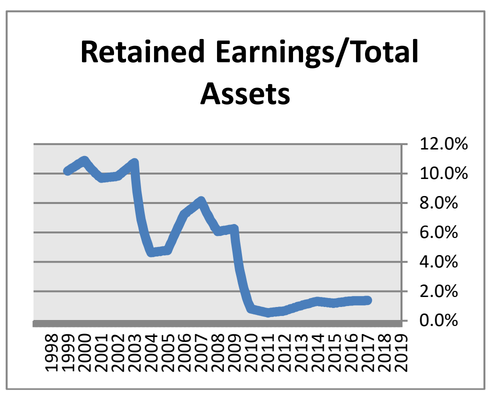


Altman Z-Score is not available for this type of companies.

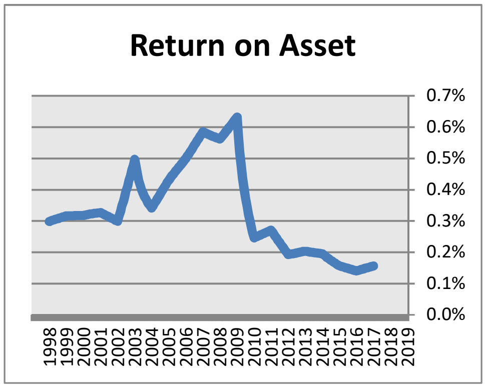
Although Altman (non-bank) Z-score is not relevant for this company because not every component of the Z-score can be calculated, we show below the components of the Z-score that can be calculated for this company.



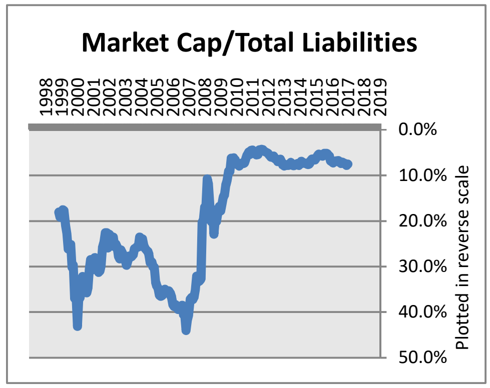
This is the Revenue Turnover ratio and it reflects the amount of revenue the company is able to generate from the use of its assets. Companies that have difficulty generating revenue cannot generate consistent cash flow to pay its bills.
The amount of revenue generated from assets has been on a downtrend since 1999.



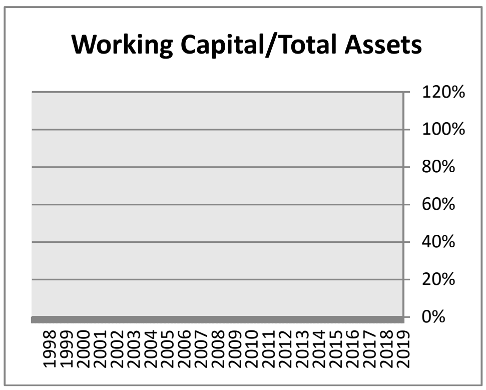
The more profits are retained within the firm, the greater the buffer of reserves for the company to weather difficult times.
The level of retained earnings relative to assets has been on an uptrend since 2011.
Currently, retained earnings are at 1.4% of total assets.



This measures the ability of the company to generate EBIT (earnings before interest and taxes) from its assets.
EBIT as a % of assets has been on a downtrend since 2009. Currently, EBIT is at 0.2% of total assets.



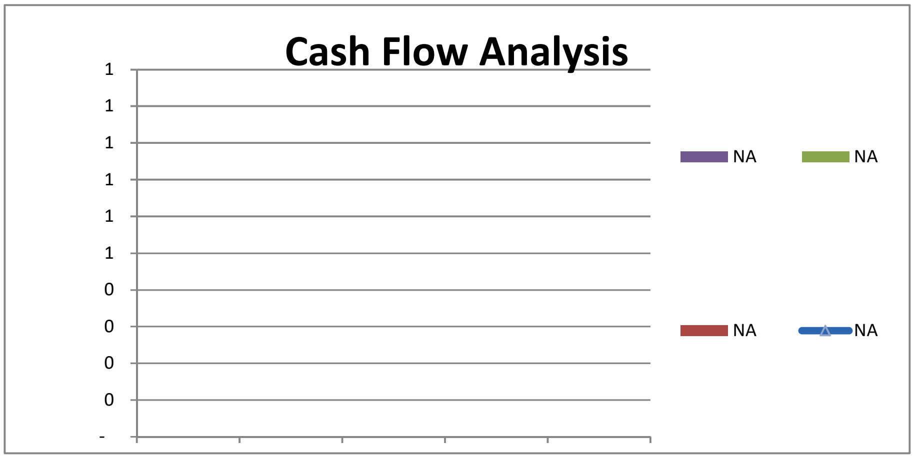
This is an indication of the level of borrowings of the firm. A high level of borrowings will affect survivability as it may not have enough cash flows to meet its debt obligations.
The level of borrowings has been on an uptrend since 2003.



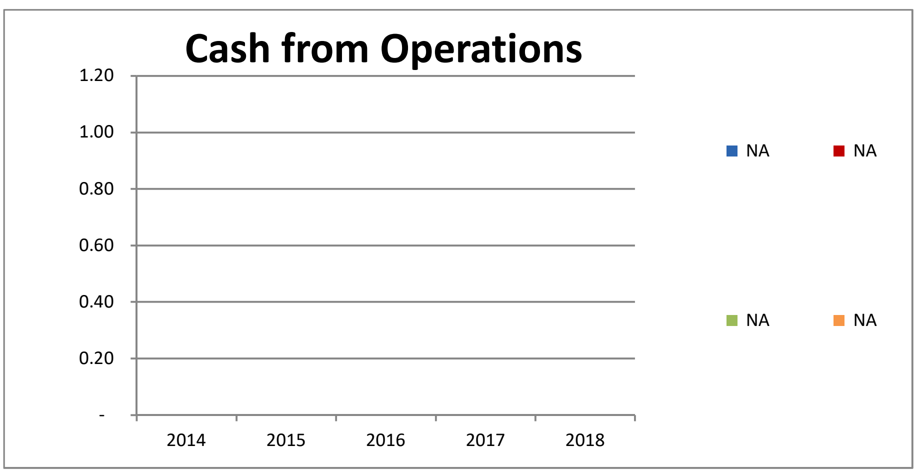
Working capital is essential to the operations of the company and a low level of working capital may result in liquidity problems. This ratio is not relevant for certain types of companies e.g. financial institutions because they do not have working capital.

Cash Flow Analysis

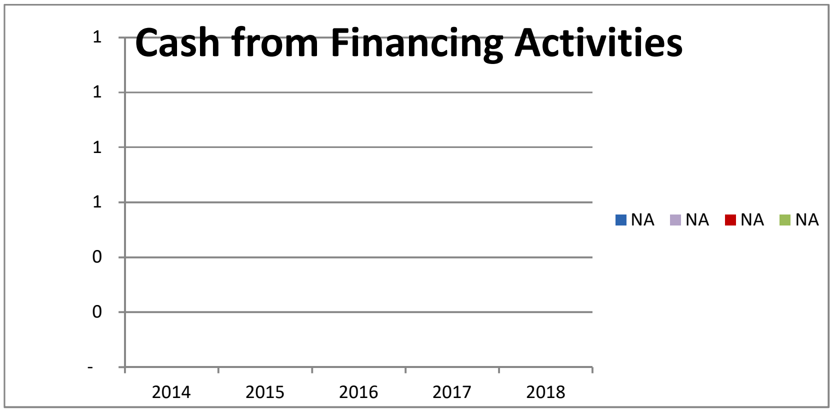
This type of cash flow analysis is not suitable for financial institutions. For non-financial institutions, we want to see if the company is generating healthy cash flow from operations.



Cash flow analysis is not relevant for this type of companies.



This analysis is not available for this company.



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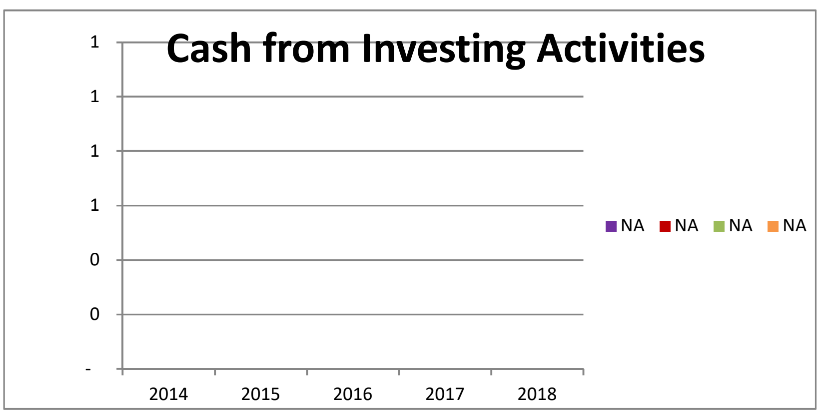
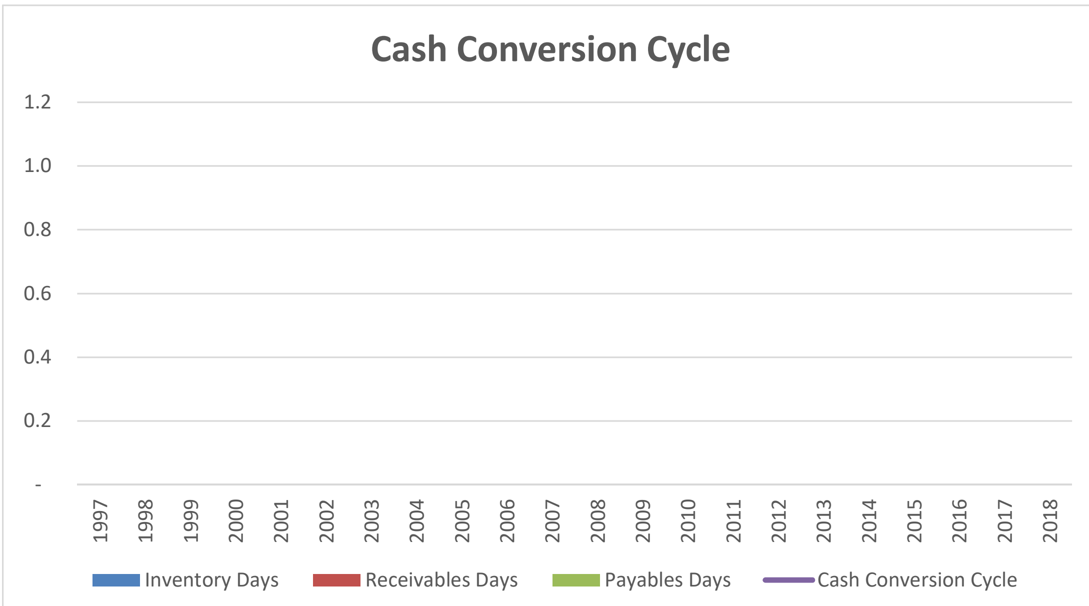


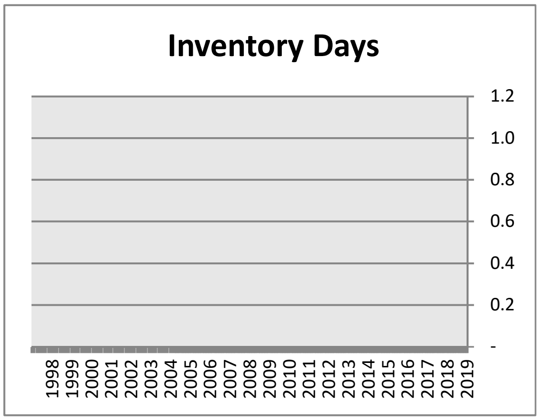
This analysis is not available for this company.

Cash Conversion Cycle

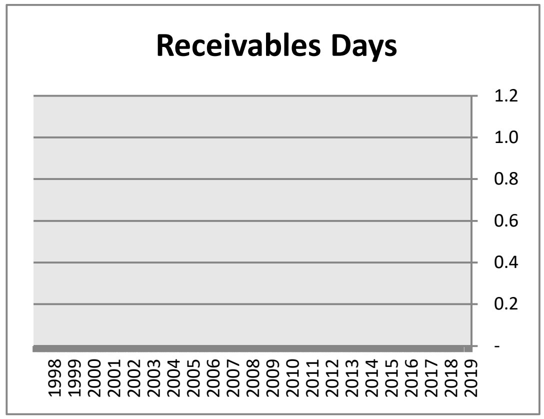
Cash Conversion Cycle is not relevant for financial institutions.



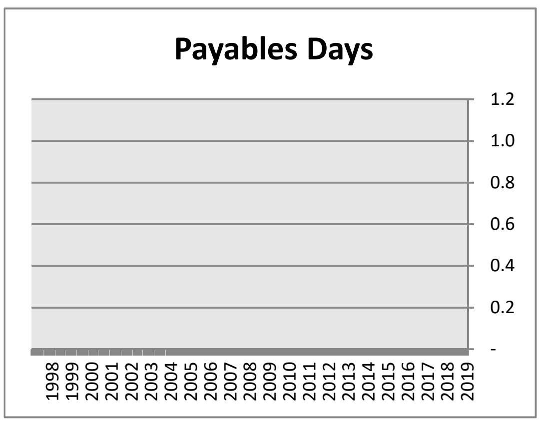
This analysis is not available for this company.



Inventory Days is not relevant to this company.

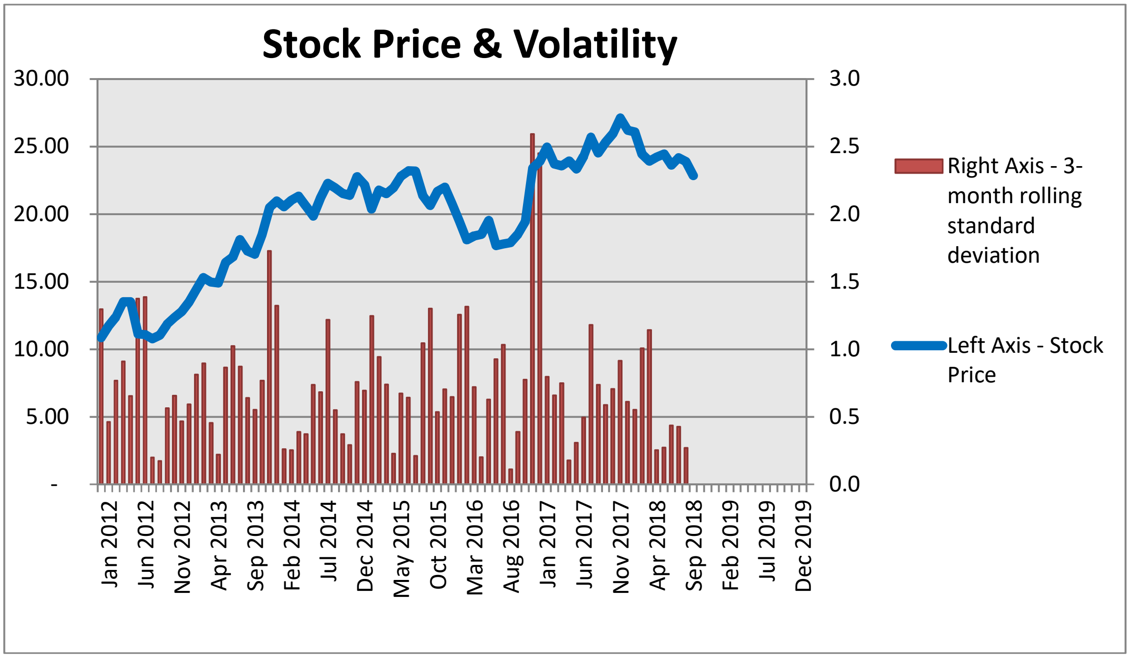


Receivables Days is not relevant for this company.

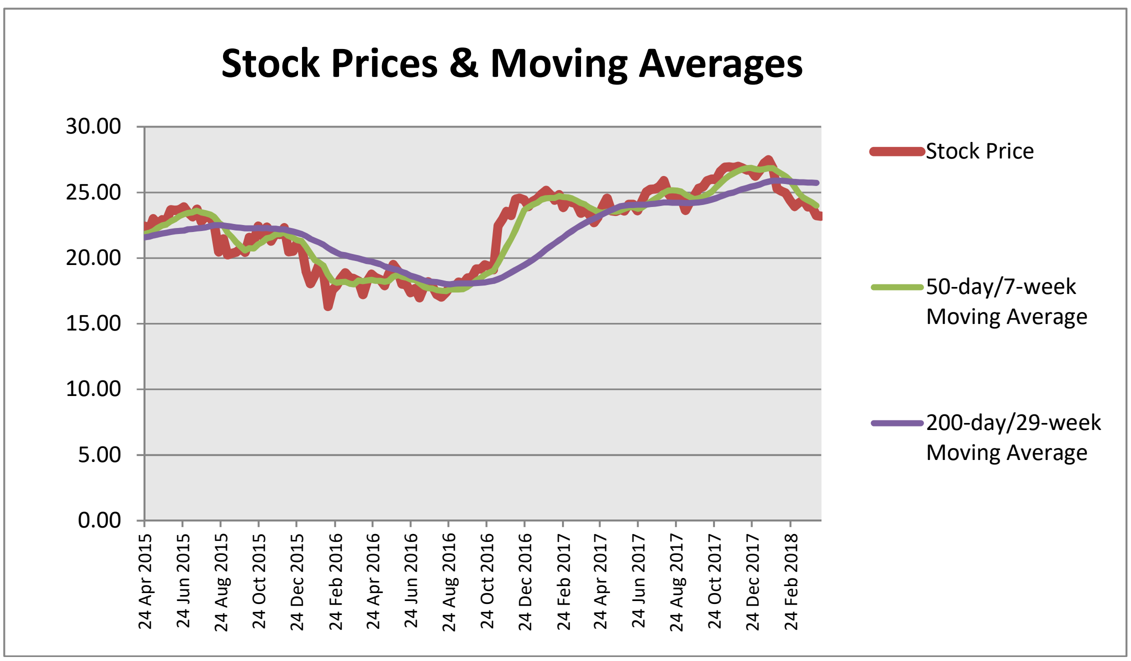


Payables Days is not relevant for this company.

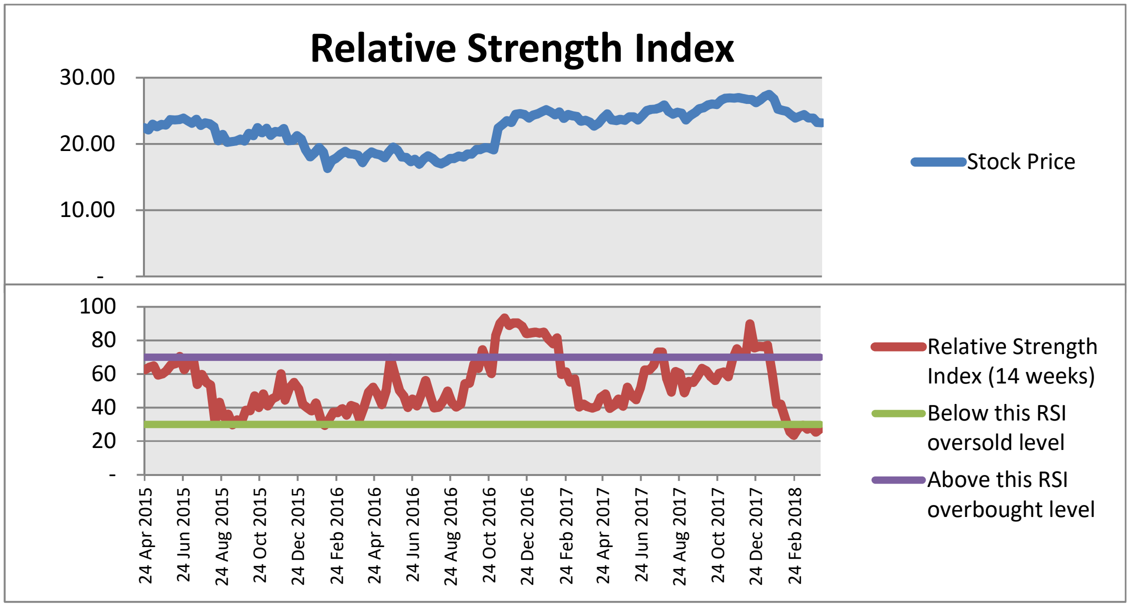
Stock Price & Technical Indicators



If the standard deviation of stock prices (as represented by the red bars) get higher (lower), it means that stock prices have become more (less) volatile.

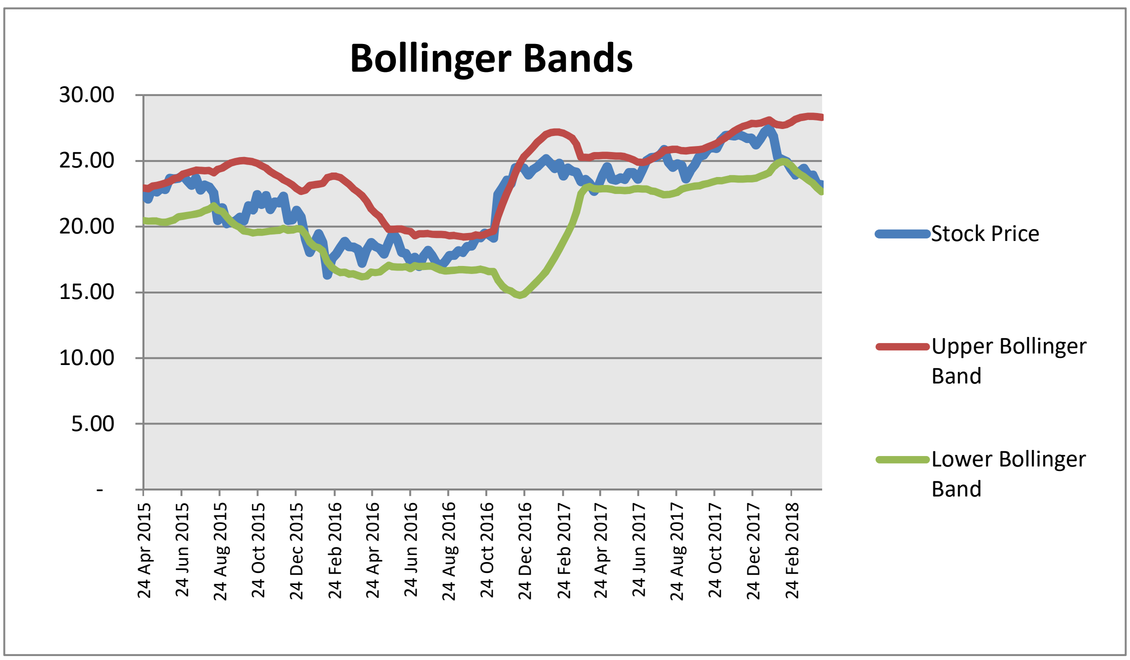


The 50-day/7-week moving average line crossed the 200-day/29-week line from the top in Mar 2018, which is a bearish sign.



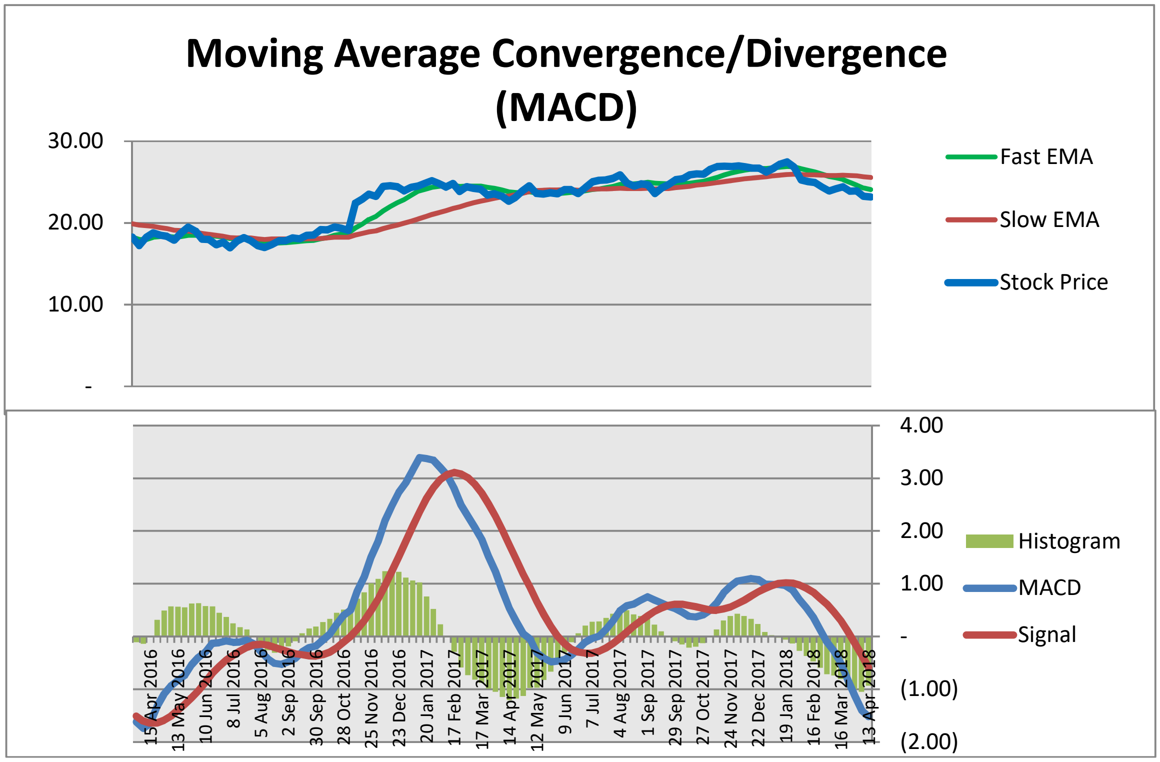
The Relative Strength Index is a momentum indicator that measures the speed and magnitude of price changes to detect whether the stock has reached overbought or oversold levels.

Based on the 14-week Relative Strength Index, the stock is in the oversold territory since 6 Apr 2018.



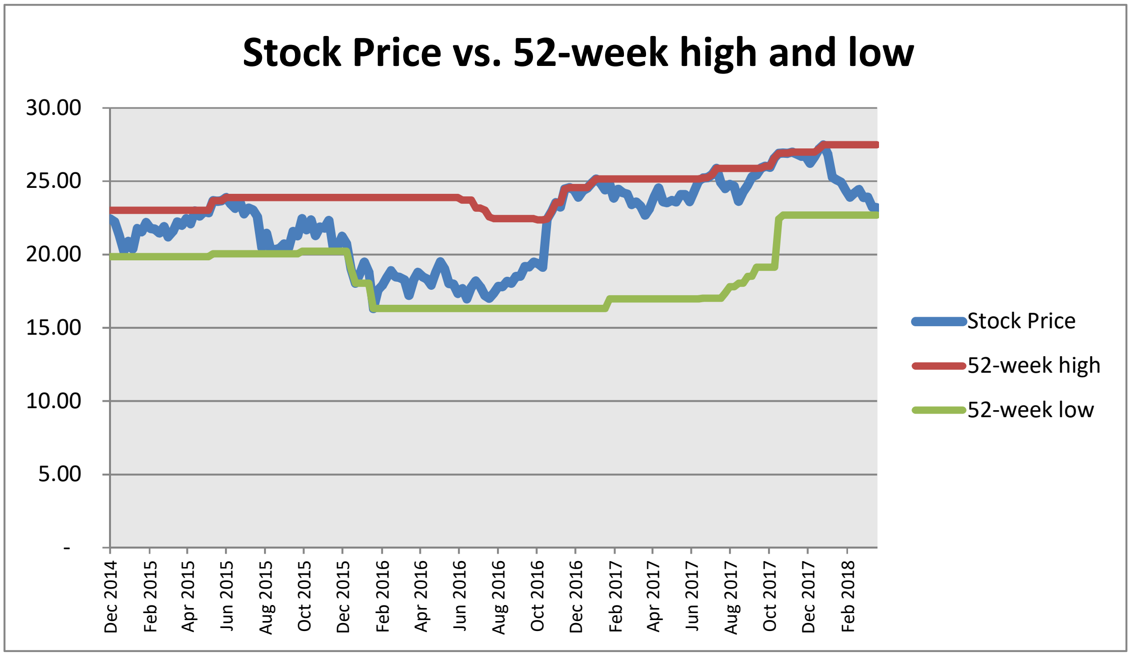
This Bollinger Band is a plot of two standard deviations (a measure of stock volatility) above and under the stock price. Based on this technical indicator, the closer the stock price is to the upper band, the more overvalued it is and the closer it is to the lower band, the more undervalued.

As at 6 Apr 2018, the stock is nearer to the lower band, which is an oversold situation.



The MACD is a momentum indicator that shows the difference between two moving averages of stock prices, a longer one for 26 periods and a shorter one for 12 periods. This "difference" is then smoothened out to trigger buy and sell signals as indicated by the histograms. If the histogram turns positive, it is a bullish signal and if it turns negative it is a bearish indicator.

As at 12 Jan 2018, the histogram has turned negative, which is a bearish indicator.



This is a technical indicator whereby a stock that is trading near its 52-week high is bought and a stock that is trading near its 52-week low is sold.

The stock, which is trading at CAD22.84 as at 14 Sep 2018, is nearer to its 52-week low, which is a bearish indicator.

Source of Data

Company description, historical financial statements data and price data are from gurufocus.com or moneycontrol.com. Estimates are from marketscreener.com - Thomson Reuters.

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