

BUY

Last Traded Price (10 Feb 2022): HK\$165.70 (HSI : 24,924)
Price Target 12-mth: HK\$198 (19% upside) (Prev HK\$192)

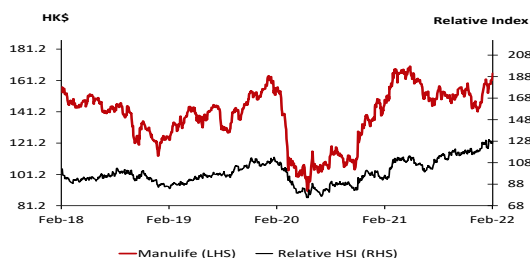
Analyst

Ken SHIH +852 36684184 kenshih@dbs.com
Sam LU +852 36681253 samlu@dbs.com

What's New

- 4Q21 earnings above expectations on growth in new/in-force business and fee income; FY21 earnings reached 12%/6% of ours/consensus forecast
- VNB in Asia insurance business higher at +11%/+27% y-o-y in 4Q21/FY21, in line, driven by solid demand from HK, Singapore, and Vietnam
- Continuous portfolio optimization to provide capital deployment flexibility and helps to fuel future growth
- Raised FY22/23F earnings by 12%/7% to reflect the better FY21 results. Lift TP to HK\$198. Maintain BUY

Price Relative



Forecasts and Valuation

FY Dec (C\$ m)	2020A	2021A	2022F	2023F
Net earned premiums	32,917	39,065	43,459	48,375
Net investment income	16,433	15,627	15,392	15,779
Net Profit	5,700	6,890	7,360	7,604
EPS (C\$)	2.89	3.49	3.73	3.85
EPS (HK\$)	17.71	21.40	22.86	23.62
EPS Gth (%)	5.0	20.9	6.8	3.3
PE (X)	9.4	7.7	7.2	7.0
DPS (HK\$)	6.86	7.17	8.36	9.12
Net Div Yield (%)	4.1	4.3	5.0	5.5
BV Per Share (HK\$)	164.92	184.06	197.69	212.04
P/Book Value (X)	1.0	0.9	0.8	0.8
P/EV (X)	0.9	0.8	0.7	0.7
ROAE (%)	11.2	12.4	12.2	11.7

Earnings Rev (%)		12	7
Consensus EPS (C\$)		3.53	3.85
Other Broker Recs:	B:9	S:1	H:5

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

Good sets of result delivered

Investment Thesis

US bond yields to accelerate on an upward trend in FY22F.

The US 10-year bond yield rose to 1.9% in February 2022, the highest level since 2019. In anticipation of faster tapering and US rate hike expectations, US bond yields are set to rise further in FY22F. Our DBS economics team forecasts US 10-year bond yields to reach 2.5% by end-FY22.

Expect VNB growth to reach 22% in FY22F. Improving visibility in value of new business (VNB) is expected, driven by strong new business demand in Asia ex-Japan market. We expect VNB to expand by 22% y-o-y in FY22F.

Business optimisation efforts provide flexibility: Continuous portfolio optimisation and expense efficiency efforts can provide flexibility on capital deployment and balance sheet strength for further growth. The company is well on-track to meet its medium-term financial and strategic priorities.

Valuation:

Our target price is based on 0.9x 12-month forward P/EV, in line with the historical 5-year mean.

Where we differ:

Consensus is 50%/50% positive/neutral on Manulife, and we believe the market continues to underestimate the strong VNB growth outlook driven by strong Asia ex-Japan demand and a better product mix. We forecast VNB growth to reach 22% in FY22/23F.

Key Risks to Our View:

Significant drop in interest rates, rising equity market volatility, and slower-than-expected Asian market growth.

At A Glance

Issued Capital (m shrs)	1,943
Mkt Cap (HK\$m/US\$m)	321,955 / 41,302
Major Shareholders (%)	
Free Float (%)	100.0
3m Avg. Daily Val. (US\$m)	0.44
GICS Industry: Financials / Insurance	

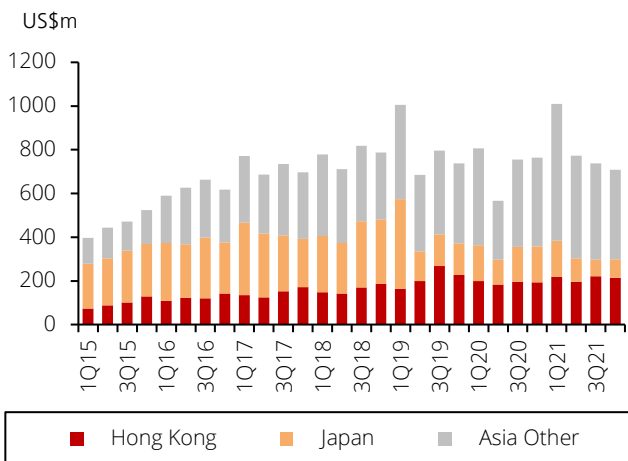
Manulife

WHAT'S NEW

Good set of results delivered

We attended Manulife (945 HK, BUY) FY21 year-end result call with positive takeaways. Manulife's 4Q21 earnings landed at C\$2.1bn, +17% y-o-y, with core earnings at C\$1.7bn, or +16% y-o-y. This was above our expectations, driven mainly by higher new business gains in the US and Canada, growth in Asia and Canada insurance in-force business, higher fee income from higher AUM accumulation in its Global Wealth and Asset Management (WAM) business, and gains from core investments. These factors supported FY21 full year earnings growth of 12%/6% ahead ours/consensus forecast.

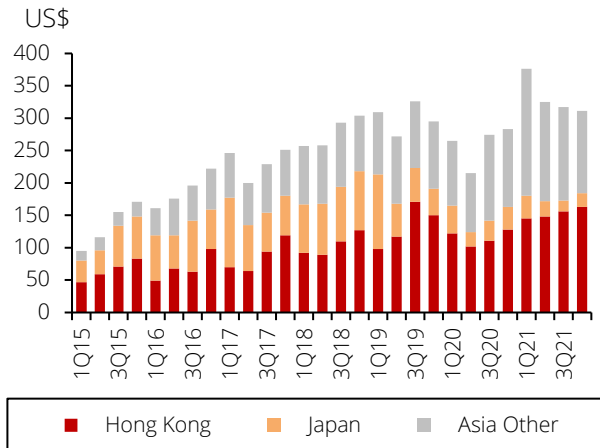
Fig 1. APE trend in Asia insurance business



Source: Company data, DBS HK

In terms of its insurance business performances, VNB (value-of-new-business) grew by 17% y-o-y in 4Q21, on the back of 5% y-o-y growth in APE (annual premium equivalent) and favorable product margin shift. FY21 full year VNB growth of 31% y-o-y was in-line with our upbeat expectations.

Fig 2. VNB trend in Asia insurance business

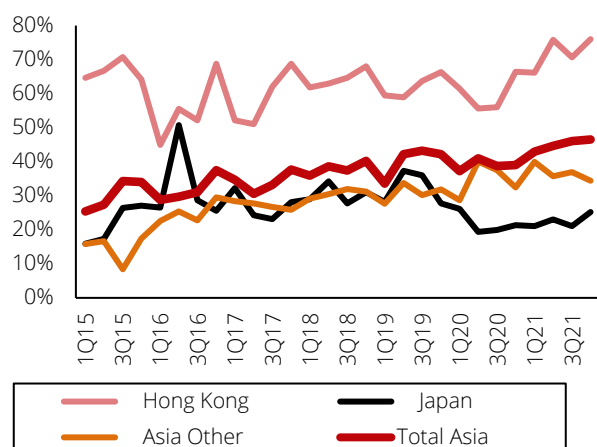


Source: Company data, DBS HK

For the Asia insurance business, VNB grew 11% y-o-y in 4Q21, driven mainly by higher sales volume, favourable interest rate and expense management in Hong Kong (VNB: +27% y-o-y), and favorable product mix in Singapore and Vietnam. FY21 full year VNB grew 27% y-o-y with VNB margin expanded to 44.9%, +6.1 ppt y-o-y. Management also highlighted robust demand in the Macau market, driven by demand from Mainland Chinese Visitors. While business in China had faced short-term impact from the weakening critical illness (CI) product demand and industry-wide life agent shrinkage (agent headcount down 30%-35% at industry level, compared to Manulife China, down 15%). Nonetheless, we saw strong growth in retirement products, thereby triggering higher protection demand. In FY21, China market's APE and VNB landed at +12% y-o-y and +14% y-o-y, respectively, both exceeded industry growth.

Manulife

Fig 3. VNB margin trend in Asia insurance business



Source: Company data, DBS HK

As for the Global WAM business, positive net inflows were seen across all geographies in 4Q21, mainly driven by growth in the US and Asia retail segments. As a result, AUM increased 14% y-o-y to C\$856m for the year, and this led to a 28% y-o-y growth in net fee income (4Q21 net fee income at +27% y-o-y). Manulife is also on track to meet its medium-term financial targets and strategic priorities - FY21 core ROE reaching 13% (versus medium-term target at +13%), 36% dividend payout for FY21 (versus medium-term target of 30%-40%), FY21 leverage ratio at 25.8% (versus medium-term target of 25%), and expense efficiency and portfolio optimization at 48.9% and 20% of total core earnings in FY21 (versus target at <50% by FY22F and <15% by FY25, respectively).

Factoring in the better-than-expected FY21 results, we revise up FY22/23F earnings by 12%/7% and maintain our VNB growth assumption of +22% y-o-y for FY22F and FY23F. We further lift our TP to HK\$198 (from HK\$192), based on the same 0.9x FY22F P/EV. We maintain BUY on Manulife.

Key highlights in respect to Asia business during the call:

- APE sales in Asia was down 6% y-o-y in 4Q21 while HK APE sales rose 11% due to strong growth in bank channels and strong demand from MCV in Macau.
- Continued to see strong inflow in HK's MPF business, and was No. 1 in WAM and net inflows.

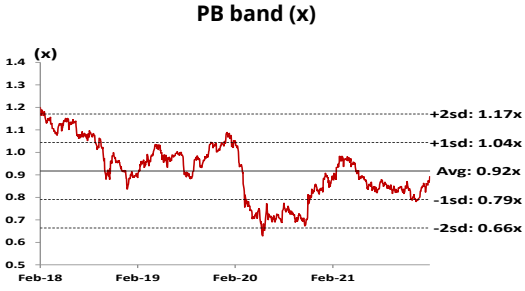
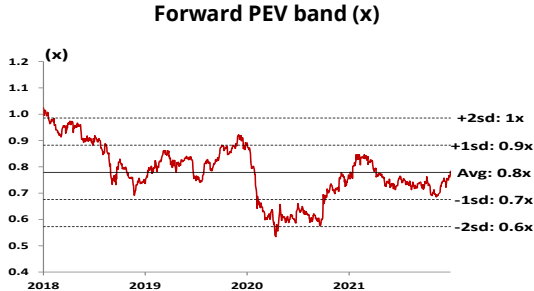
- The management indicated there was less impact on Manulife compared to others from the issues (both COVID and political) that Hong Kong is now facing. Hong Kong business has shown strong resilience over the last 17 quarters and provided positive strong earnings growth. The management believes that the long cultivation in Hong Kong market has enabled Manulife to have a good quality franchise with strong execution capability to proactively gain market share. The management is confident that the company can navigate the COVID-19 headwinds given that Macau is now a larger contributor and lifting of border restrictions will bring back substantial business opportunities.
- In terms of Mainland China market, management believes that even though the regulatory changes to CI products caused demand drop for such products last year and product mix shift towards other products including retirement products in the short term, the regulatory changes are good for the overall industry's sustainable development. The management also sees that China has more regulatory focus on quality agency contribution, which is positive for Manulife given that it aligns with its strategy.
- In response to whether Manulife will have a 100%-owned subsidiary in China, management claims that the JV partner, namely SinoChem is a strong partner that will help Manulife to expand its business in China. Management seems to have no interest to establish a 100%-owned subsidiary in China for now.

Company Background

Manulife Financial Corporation (Manulife) was established in 1887. It was listed on HKEX in September 1999. The group mainly provides financial advisory services, insurance, and wealth and asset management solutions for individuals, groups and institutions. As at FY20, its total assets and equity had reached C\$880bn and C\$53bn respectively.

Manulife

Historical PEV and PB band



Source: Bloomberg Finance L.P. DBS HK

Manulife

Key Assumptions

FY Dec	2019A	2020A	2021A	2022F	2023F
VNB growth	17.3	(12.1)	25.4	21.6	21.9
Net investment return	4.0	3.6	3.5	3.5	3.4
Total investment return	4.0	3.6	3.5	3.5	3.4
EV growth	4.5	5.2	8.9	8.0	8.7
Solvency ratio	234.9	227.9	244.4	245.3	246.1

Source: Company, DBS HK

Income Statement (C\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Gross written premiums	41,059	41,408	44,344	49,332	54,912
Net earned premium	35,578	32,917	39,065	43,459	48,375
Investment income	15,393	16,433	15,627	15,392	15,779
Other operating income	28,599	29,558	7,129	17,573	17,536
Total income	79,570	78,908	61,821	76,424	81,691
Benefits and claims	(62,387)	(67,115)	(41,829)	(54,540)	(58,839)
Underwriting and policy acquisition costs	(1,748)	(1,787)	(1,980)	(1,981)	(2,095)
Finance cost	(1,319)	(1,181)	(1,011)	(1,087)	(1,097)
Other expenses	(7,896)	(2,054)	(8,876)	(10,211)	(10,761)
Total expenses	(73,350)	(72,137)	(53,696)	(67,819)	(72,792)
Share of profit of associated and JVs	N/A	N/A	N/A	N/A	N/A
Profit before tax	6,220	6,771	8,125	8,605	8,899
Income tax expense	(718)	(1,195)	(1,213)	(1,205)	(1,246)
Minority interest	(233)	(250)	(255)	(273)	(282)
Preferred dividend	(172)	(171)	(215)	(215)	(215)
Net income attributable to shareholders	5,430	5,700	6,890	7,360	7,604

Source: Company, DBS HK

Manulife

Balance Sheet(C\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Total Investment	378,527	410,977	427,098	448,453	470,876
Segregated funds net assets	343,108	367,436	399,788	401,520	403,846
Other assets	87,495	101,936	90,757	90,757	90,757
Total assets	809,130	880,349	917,643	940,730	965,479
Net life reserves - traditional	309,715	339,718	347,696	367,435	388,533
Net life reserves - investment contracts	3,104	3,288	3,117	3,273	3,436
Segregated funds net liabilities	343,108	367,436	399,788	399,788	399,788
Other Liabilities	103,097	116,901	108,173	107,486	106,868
Total liabilities	759,024	827,343	858,774	877,982	898,626
Shareholder's equity	49,138	52,335	58,408	62,735	67,288
Participating policyholders' equity	(243)	(784)	(1,233)	(1,681)	(2,129)
Minority interest	1,211	1,455	1,694	1,694	1,694
Total equity	50,106	53,006	58,869	62,748	66,853

Source: Company, DBS HK

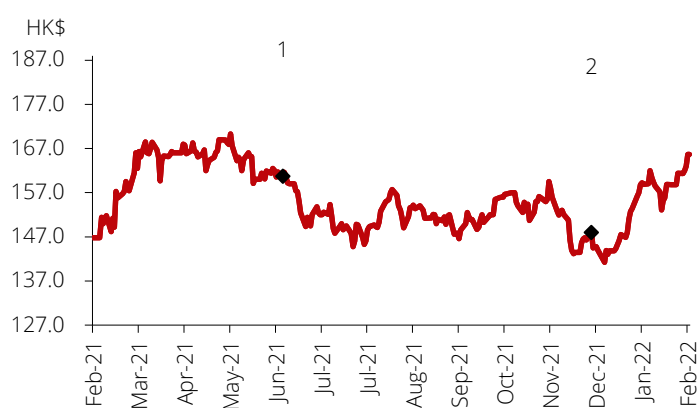
Key Financials & Ratios

FY Dec	2019A	2020A	2021A	2022F	2023F
Du Pont analysis (%)					
Net profit / premium income	15.3	17.3	17.6	16.9	15.7
Premium income / total asset	0.7	0.6	0.8	0.8	0.8
Total asset / total equity	16	17	16	15	14
Return on equity	11.4	11.2	12.4	12.2	11.7
Embedded value(C\$ m)					
Book value	49,138	52,335	58,408	62,735	67,288
Adjusted items	(2,649)	(3,666)	(3,666)	(3,666)	(3,666)
Adjusted book value	46,489	48,669	54,742	59,069	63,622
Value-in-force	27,063	30,228	32,593	35,147	37,908
Adjustment (if any)	(15,485)	(17,815)	(17,815)	(18,349)	(18,900)
Group embedded value	58,067	61,082	66,520	71,867	78,130
Per share analysis(C\$)					
EPS	2.75	2.89	3.49	3.73	3.85
BPS	25.27	26.91	30.03	32.26	34.60
DPS	1.00	1.12	1.17	1.36	1.49
EVPS	29.86	31.41	34.20	36.95	40.17
Capital Strength (%)					
Leverage ratio	16	17	16	15	14
Solvency ratio	234.9	227.9	244.4	245.3	246.1

Source: Company, DBS HK

Manulife

Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	7-Jun-21	HK\$161.70	HK\$185.00	Buy
2:	13-Dec-21	HK\$146.30	HK\$192.00	Buy

Source: DBS HK

Analyst: Ken SHIH

Sam LU

DBS HK recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

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Sources for all charts and tables are DBS HK unless otherwise specified.

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DBS Bank (Hong Kong) Limited

13th Floor One Island East, 18 Westlands Road, Quarry Bay, Hong Kong

Tel: (852) 3668-4181, Fax: (852) 2521-1812

Manulife

DBS Regional Research Offices

HONG KONG

DBS Bank (Hong Kong) Ltd

Contact: Carol Wu

13th Floor One Island East,

18 Westlands Road, Quarry Bay, Hong Kong

Tel: 852 3668 4181

Fax: 852 2521 1812

e-mail: dbsvhk@dbs.com

MALAYSIA

AllianceDBS Research Sdn Bhd

Contact: Wong Ming Tek (128540 U)

19th Floor, Menara Multi-Purpose, Capital Square,

8 Jalan Munshi Abdullah 50100, Kuala Lumpur, Malaysia.

Tel.: 603 2604 3333

Fax: 603 2604 3921

e-mail: general@alliancedbs.com

Co. Regn No. 198401015984 (128540-U)

SINGAPORE

DBS Bank Ltd

Contact: Janice Chua

12 Marina Boulevard,

Marina Bay Financial Centre Tower 3

Singapore 018982

Tel: 65 6878 8888

e-mail: groupresearch@dbs.com

Company Regn. No. 196800306E

INDONESIA

PT DBS Vickers Sekuritas (Indonesia)

Contact: Maynard Priajaya Arif

DBS Bank Tower

Ciputra World 1, 32/F

Jl. Prof. Dr. Satrio Kav. 3-5

Jakarta 12940, Indonesia

Tel: 62 21 3003 4900

Fax: 6221 3003 4943

e-mail: indonesiaresearch@dbs.com

THAILAND

DBS Vickers Securities (Thailand) Co Ltd

Contact: Chanpen Sirithanarattanakul

989 Siam Piwat Tower Building,

9th, 14th-15th Floor

Rama 1 Road, Pathumwan,

Bangkok Thailand 10330

Tel. 66 2 857 7831

Fax: 66 2 658 1269

e-mail: research@th.dbs.com

Company Regn. No 0105539127012

Securities and Exchange Commission, Thailand