

BUY

Last Traded Price (11 Aug 2022): HK\$146.00 (HSI : 20,082)
Price Target 12-mth: HK\$188 (29% upside) (Prev HK\$198)

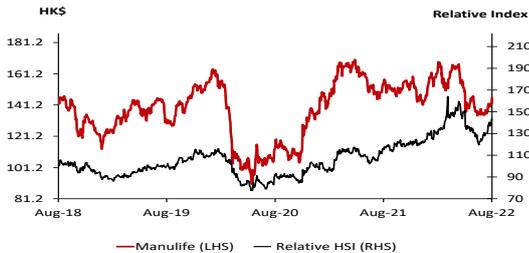
Analyst

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What's New

- 2Q22 results fall short of expectations, but look forward to improving 2H outlook
- VNB growth likely to see strong recovery in FY23F, driven by low base and Asia market demand recovery
- Strategic priorities continued to be on track, with manageable impact from IFRS 17 transition
- Revise down FY22/23F earnings by 8%/9% and VNB growth to 0%/14% y-o-y. Rollover valuation base to FY23F on lower multiple; lower TP to HK\$188. Maintain BUY

Price Relative



Forecasts and Valuation

FY Dec (C\$ m)	2020A	2021A	2022F	2023F
Net earned premiums	32,917	39,065	40,452	43,400
Net investment income	16,433	15,627	16,156	17,032
Net Profit	5,700	6,890	6,755	6,940
EPS (C\$)	2.89	3.49	3.42	3.52
EPS (HK\$)	17.76	21.46	21.04	21.62
EPS Gth (%)	5.0	20.9	(2.0)	2.7
PE (X)	8.2	6.8	6.9	6.8
DPS (HK\$)	6.88	7.19	7.49	7.69
Net Div Yield (%)	4.7	4.9	5.1	5.3
BV Per Share (HK\$)	165.37	184.56	165.65	179.44
P/Book Value (X)	0.9	0.8	0.9	0.8
P/EV (X)	0.8	0.7	0.7	0.6
ROAE (%)	11.2	12.4	12.2	12.7

Earnings Rev (%): (8) (9)
Consensus EPS (C\$) 3.20 3.46
Other Broker Recs: B:6 S:1 H:8

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

Expect improving 2H outlook

Investment Thesis

US bond yields to accelerate its upward trend. The mounting US interest rate hikes and tapering expectations with high inflationary pressure have led the US 10-year bond yield to reach nearly 3% in July 2022. The DBS Econ team forecasts that the US 10-year bond yield would reach 3.5% by end-FY22. The upward shift in the US bond yield may serve as a tailwind to the insurer.

VNB growth to strongly recover in FY23F. Due to impacts from the resurgence of Omicron in Asian markets and margin impact due to the product mix shift in China, we expect the company's VNB growth to land flat y-o-y in FY22F. However, with a low base effect and the expectation of strong demand in the Hong Kong market once the border reopens, most likely in 2H23F, we expect VNB growth to strongly recover, by +14% y-o-y, in FY23F.

Business optimisation efforts provide flexibility. Continuous portfolio optimisation and expense efficiency efforts can provide flexibility in terms of capital deployment and also 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 0.85x (previously at 0.9x) FY23F P/EV, in line with the historical five-year mean.

Where we differ:

The consensus is turning more neutral on Manulife, given the temporary slowdown in growth in its Asian insurance business. We, however, believe the market has underestimated the potential surge in its HK business once the border reopens, given HK is the largest VNB contributor and accounted for 46% of the company's VNB generation in Asia in FY21.

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 (HKm/US\$m)	283,678 / 36,162
Major Shareholders (%)	
Free Float (%)	100.0
3m Avg. Daily Val. (US\$m)	0.59
GICS Industry: Financials / Insurance	



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Manulife

WHAT'S NEW

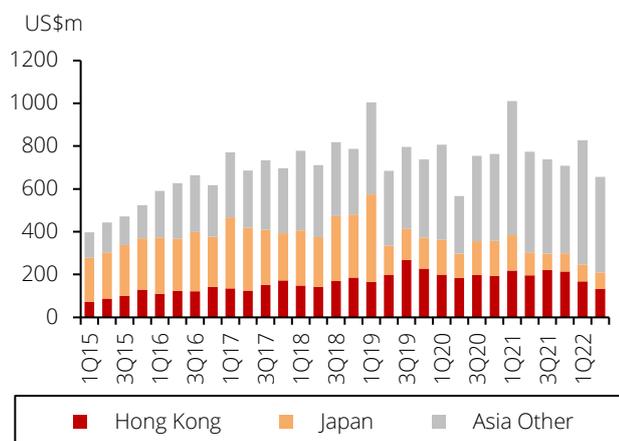
Expect improving 2H outlook

Manulife released its 2Q22 results with core earnings posted 9% lower y-o-y on weaker insurance demand during the quarter. Net income falls short of expectations, due to market volatility impacts. On the positive side, the insurer continued to demonstrate strong execution discipline, with its expense efficiency ratio further improving to 49.2%, in line with its target of below 50%. Other major strategic priorities were also well maintained and on track to achieving the targets set.

VNB and APE (annual premium equivalent) in 2Q22 landed 9% lower y-o-y and 1% lower y-o-y, respectively, mainly impacted by weaker insurance demand and an unfavourable product mix from the Asian market. Growth from Canada and the US markets remained robust, with combined VNB and APE growth up 23% y-o-y and 15% y-o-y, respectively, for the quarter.

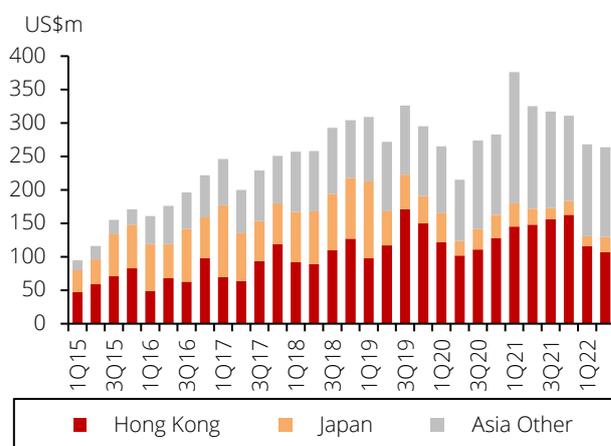
For its Asia insurance business, APE and VNB growth were posted 12% lower y-o-y and 17% lower y-o-y, respectively, mainly due to the adverse impact from the resurgence of Omicron in Hong Kong, where APE and VNB were down 32% y-o-y and 28% y-o-y, respectively (Figs 1-2). The VNB margin for its Asia insurance business for the quarter reached 43.1%, +5ppt q-o-q and -1.5ppts y-o-y, as the product mix shift, mainly in the China market, continued to pressure its "Asia Other" market. On the other hand, margin improvements were seen in the Hong Kong and Japan markets (Fig 3).

Fig 1. Asia insurance business APE by market



Source: Company data, DBS HK

Fig 2. Asia insurance business VNB by market



Source: Company data, DBS HK

Despite the temporary standstill, we expect a better outlook in 2H, as the impact from Omicron has started to normalise since late Q2 in many of the Asian markets the company operates, with robust demand from its Canada and US insurance businesses likely to sustain. Moving into FY23F, we also remain optimistic about the reopening of the Hong Kong border, which would be likely in 2H23F, which may help drive a decent demand recovery. Overall, we now expect VNB growth to be flat y-o-y (down 11% y-o-y for 1H22) in FY22F and to recover strongly, by 14% y-o-y in FY23F.

Guidance on IFRS 17 implementation

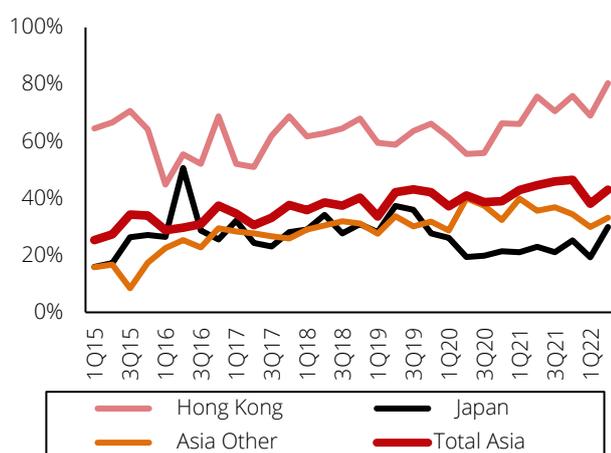
Manulife previously guided with the adoption of IFRS 17 during this transitional period. Its core earnings are expected to decline by approximately 10%, driven mainly by the recognition of new business gains in the CSM (contractual service margin) and the timing of earnings from investment-related activities. With the establishment of CSM, which represents future unearned profit and will shift from equity to liability under the new accounting rule, its equity is expected to decrease by approximately 20%. However, as CSM contains the capital feature of the ability to absorb losses (given it is unearned profit), it will be treated as available capital. Hence, there's no impact to its LICAT ratio.

Manulife

Medium-term financial and operating targets update

Upon the adoption of IFRS 17, the company will set two new financial targets, including for CSM balance growth and new business CSM growth of 8%-10% and 15%, respectively. It also revised its core ROE and dividend payout ratio targets to 15%+ and 35%-40%, respectively, from 13%+ and 30%-40% previously, mainly due to the establishment of CSM.

Fig 3. Asia insurance business VNB margin by market



Source: Company data, DBS HK

Maintain BUY with TP of HK\$188

By factoring in the 2Q22 results, the revised assumption for VNB growth in FY22/23F, and the potential impact from IFRS 17 upon the transition, we lower FY22/23F earnings by 8%/9%. Rolling over our valuation base to FY23F with a slightly lower multiple of 0.85x FY23F P/EV (previously at 0.9x), we lower down our TP to HK\$188 (from HK\$198). With a 29% share price upside, we retain BUY on Manulife.

Please see below the main summaries of the Q&As during the earnings call:

- APE sales in Asia down 15% y-o-y in 2Q22, due to lower new business sales driven by the continued effect of COVID-19 in Hong Kong and lower sales in Asia Others. Even though uncertainty in 2H continues, management is seeing the recovery of its sales force recruitment in Vietnam, and believes that Asia secular trends are compelling. They are well positioned to capture the opportunity by leveraging the company's diversified channel mix to cover target customers, from the mass affluent to HNWI individuals.
- Asia continued to grow its high-quality agency force with the number of MDRT members growing 23% from pre-pandemic levels. Hong Kong climbed one spot to rank second in terms of the number of MDRT members and has the highest proportion of MDRTs in its agency force compared to its peers.
- Manulife remains #1 in Hong Kong MPF, both in terms of AUM and net flows.
- Stable investment portfolio performance underpinned by solid long-term fundamental earnings power on underlying assets, given the current market conditions.
- In terms of the IFRS 17 impact, management observed a 20% reduction in equity on 1 Jan 2022, and the sensitivity of its equity book to interest rate volatility materially declined.

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.

Historical PEV and PB band



Source: Bloomberg Finance L.P. DBS HK

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Key Assumptions

FY Dec	2019A	2020A	2021A	2022F	2023F
VNB growth	17.3	(12.1)	24.5	0.2	13.8
Net investment return	4.0	3.6	3.7	3.7	3.7
Total investment return	4.0	3.6	3.7	3.7	3.7
EV growth	4.5	5.2	6.1	3.9	7.5
Solvency ratio	234.9	227.9	244.4	238.6	239.4

Source: Company, DBS HK

Key Assumptions

FY Dec	2019A	2020A	2021A	2022F	2023F
Gross written premium growth	4.9	0.8	7.1	3.5	7.3
Agency growth	0.0	0.0	0.0	0.0	0.0
Agency productivity growth	0.0	0.0	0.0	0.0	0.0
Expense ratio	0.0	0.0	0.0	0.0	0.0
Loss ratio	0.0	0.0	0.0	0.0	0.0
Combined ratio	0.0	0.0	0.0	0.0	0.0
VNB margin	N/A	N/A	N/A	N/A	N/A
Net investment return	4.0	3.6	3.7	3.7	3.7
Total investment return	4.0	3.6	3.7	3.7	3.7
EV growth	4.5	5.2	6.1	3.9	7.5
Solvency ratio	234.9	227.9	244.4	238.6	239.4

Source: Company, DBS HK

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Income Statement (C\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Gross written premiums	41,059	41,408	44,344	45,918	49,265
Net earned premium	35,578	32,917	39,065	40,452	43,400
Investment income	15,393	16,433	15,627	16,156	17,032
Other operating income	28,599	29,558	7,129	17,573	17,985
Total income	79,570	78,908	61,821	74,180	78,417
Benefits and claims	(62,387)	(67,115)	(41,829)	(53,808)	(57,595)
Underwriting and policy acquisition costs	(1,748)	(1,787)	(1,980)	(1,844)	(1,880)
Finance cost	(1,319)	(1,181)	(1,011)	(1,087)	(1,097)
Other expenses	(7,896)	(2,054)	(8,876)	(9,567)	(9,749)
Total expenses	(73,350)	(72,137)	(53,696)	(66,307)	(70,320)
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	7,874	8,097
Income tax expense	(718)	(1,195)	(1,213)	(1,102)	(1,134)
Minority interest	(233)	(250)	(255)	(250)	(257)
Preferred dividend	(172)	(171)	(215)	(215)	(215)
Net income attributable to shareholders	5,430	5,700	6,890	6,755	6,940

Source: Company, DBS HK

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	400,948	402,651
Property, plant and equipment	0	0	0	0	0
Other assets	87,495	101,936	90,757	90,757	90,757
Total assets	809,130	880,349	917,643	940,158	964,284
Net life reserves - traditional	309,715	339,718	347,696	377,174	397,840
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	887,721	907,933
Shareholder's equity	49,138	52,335	58,408	52,424	56,786
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	52,437	56,351

Source: Company, DBS HK

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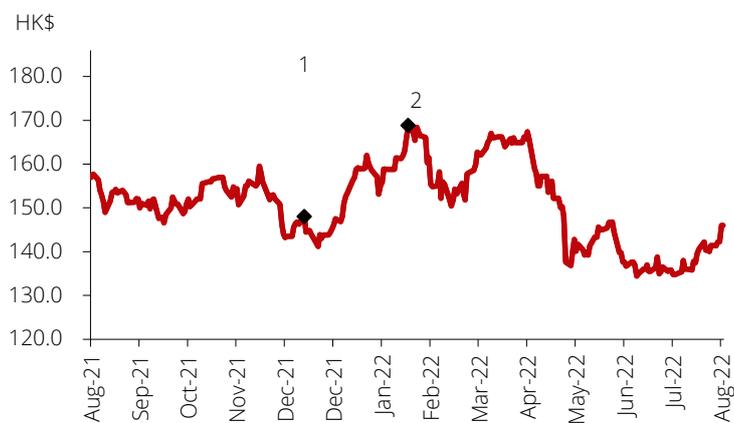
Key Financials & Ratios

FY Dec	2019A	2020A	2021A	2022F	2023F
Du Pont analysis (%)					
Net profit / premium income	15.3	17.3	17.6	16.7	16.0
Premium income / total asset	0.7	0.6	0.8	0.7	0.7
Total asset / total equity	16	17	16	18	17
Return on equity	11.4	11.2	12.4	12.2	12.7
Embedded value(C\$ m)					
Book value	49,138	52,335	58,408	62,424	66,786
Adjusted items	(2,649)	(3,666)	(4,444)	(4,444)	(4,444)
Adjusted book value	46,489	48,669	53,964	57,980	62,342
Value-in-force	27,063	30,228	29,082	31,653	34,425
Adjustment (if any)	(15,485)	(17,815)	(18,243)	(18,790)	(19,354)
Group embedded value	58,067	61,082	64,803	67,342	72,412
Per share analysis(C\$)					
EPS	2.75	2.89	3.49	3.42	3.52
BPS	25.27	26.91	30.03	26.95	29.20
DPS	1.00	1.12	1.17	1.22	1.25
EVPS	29.86	31.41	33.32	34.63	37.23
Capital Strength (%)					
Leverage ratio	16	17	16	18	17
Solvency ratio	234.9	227.9	244.4	238.6	239.4

Source: Company, DBS HK

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Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	13-Dec-21	HK\$146.30	HK\$192.00	Buy
2:	11-Feb-22	HK\$165.70	HK\$198.00	Buy

Source: DBS HK
 Analyst: Ken Shih
 Iris GAO

Manulife

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

Completed Date: 12 Aug 2022 11:19:51 (HKT)

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

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