

China / Hong Kong Company Update

Manulife

Bloomberg: 945 HK EQUITY | Reuters: 0945.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

19 Feb 2024

BUY

Last Traded Price (16 Feb 2024): HK\$191.70 (HSI : 16,340)
Price Target 12-mth: HK\$210 (10% upside) (Prev HK\$182)

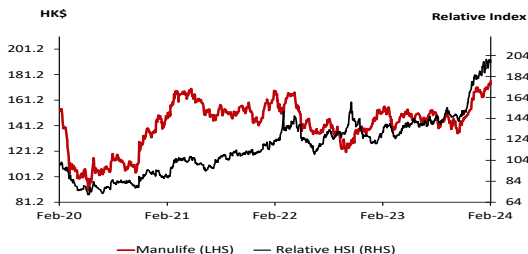
Analysts

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What's New

- 4Q23 VNB up 20% y-o-y, beating expectations by 20%
- 4Q23 core earnings up +15% y-o-y, largely in line
- VNB growth momentum expected to continue in FY24F, driven by robust growth in Asia, especially HK MCV segment
- Revise up VNB forecasts by 9%/14% in FY24F/25F, lift TP from HK\$182 to HK\$210 on the back of its robust new business and earnings growth, maintain BUY

Price Relative



Forecasts and Valuation

FY Dec (C\$ m)	2022A	2023A	2024F	2025F
Ins. service result	3,160	3,977	4,315	4,506
Net investment result	(5,970)	3,393	4,037	4,290
Net Profit	7,034	5,235	6,156	6,732
EPS (C\$)	(1.18)	2.62	3.17	3.49
EPS (HK\$)	(6.83)	15.19	18.40	20.25
EPS Gth (%)	N/A	N/A	21.1	10.1
PE (X)	nm	12.6	10.4	9.5
DPS (HK\$)	7.67	8.48	8.88	9.36
Net Div Yield (%)	4.0	4.4	4.6	4.9
BV Per Share (HK\$)	145.96	151.25	160.55	171.21
P/Book Value (X)	1.3	1.3	1.2	1.1
P/EV (X)	1.0	0.9	0.9	0.8
ROAE (%)	13.4	11.1	12.7	13.0

Earnings Rev (%): 6 3
Consensus EPS (C\$): 3.62 3.96
Other Broker Recs: B:10 S:1 H:5

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

Robust new business growth ahead

Investment Thesis

VNB growth recovery to continue in FY24F. Asia market continues to be the main growth driver for Manulife, especially in Hong Kong, which accounts for one-third of the group total. Both the mainland Chinese visitor (MCV) segment and domestic demand remain robust after the easing of pandemic restrictions. With the return of demand from MCV customers in Hong Kong and resilient growth across other major markets, we expect Manulife to deliver 10%/14% y-o-y VNB growth in FY24F/25F.

Investment returns expected to remain elevated with higher-for-longer rates. Despite the potential rate cuts by major central banks across the world, we expect net investment income to remain elevated, with higher-for-longer rates driving up recurring investment return in FY24F. Asset management segment is likely to benefit from the rebound in assets under management and administration (AUMA) as investors increase their fixed-income allocation to bet on potential rate cuts.

Effective capital management to enhance shareholder return. Continuous portfolio optimisation and expense efficiency efforts can provide flexibility in terms of capital deployment and balance sheet strength for further growth. This is illustrated in the recent transaction where Manulife reinsured its low ROE blocks worth C\$13bn and plans to use the proceeds to repurchase shares to enhance shareholder return. As a result, EPS and ROE are expected to improve by +C\$0.07 per share (2% FY24F EPS) and 0.33ppt, respectively.

Maintain BUY and lift TP to HK\$210. With a better-than-expected new business outlook, we revise up FY24F/25F VNB growth by 9%/12% and revise down net profit by 2%/3%, respectively, to factor in the rising tax rate. Based on 0.9x (previously 0.8x) FY24F P/EV, we revise up our TP from HK\$182 to HK\$210, maintain BUY.

Key Risks

Key risks include a significant drop in interest rates, rising equity market volatility, and slower-than-expected growth in the Asian market.

At A Glance

Issued Capital (m shrs)	1,908
Mkt Cap (HKm/US\$m)	365,764 / 46,758
Major Shareholders (%)	NIL
Free Float (%)	100.0
3m Avg. Daily Val. (US\$m)	0.7
GICS Industry: Financials / Insurance	

Manulife

WHAT'S NEW

We attended Manulife's (945 HK, BUY) 4Q23 analyst briefing and left with positive takeaways.

Robust VNB growth to continue in FY24F

Manulife's new business momentum continued in 2023, with value of new business (VNB) up 10% y-o-y on a constant exchange rate (CER) basis, mainly driven by robust growth in Canada and the US, with VNB in the two areas up +35% and +21% y-o-y, respectively. Newly expanded group insurance fuelled sales in Canada, and US sales benefited from the pricing effect and robust demand from affluent customers.

Asia VNB advanced by 3% y-o-y, overshadowed by muted sales in Vietnam due to regulatory restrictions on insurance sales. Excluding this impact, Asia VNB rose by 15% y-o-y, weaker than its Asian peers' 30%+ VNB growth. The Asian market continues to be the main growth driver for Manulife, especially in Hong Kong, which accounts for one-third of the group's total. In FY23, HK annualised premium equivalent (APE) and VNB rose by 58% and 20% y-o-y, respectively, mainly driven by robust demand from both the mainland Chinese visitor (MCV) segment and domestic customers after the easing of pandemic restrictions (Figures 1/2/4). HK VNB margin dropped 18.5ppt y-o-y to 59.5%, as the product mix shifted to savings products (Figure 3). On the other hand, the China and Japan markets saw double and double-digit y-o-y VNB growth in FY23, and its VNB margins improved by 10ppt and 12ppt, respectively.

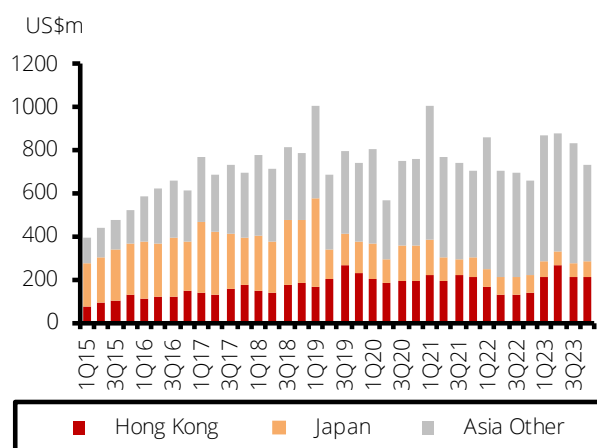
Looking forward, we expect HK to continue to be the main growth driver, supported by the return of demand from MCV customers and resilient domestic demand. VNB growth in other Asia and North America markets is likely to normalise, despite a high base in FY23. Overall, we expect the insurer to deliver 10% and 14% y-o-y growth in VNB in FY24F/25F.

Key considerations in earnings projections:

- Impact of Global Minimum Tax Act (-ve)**

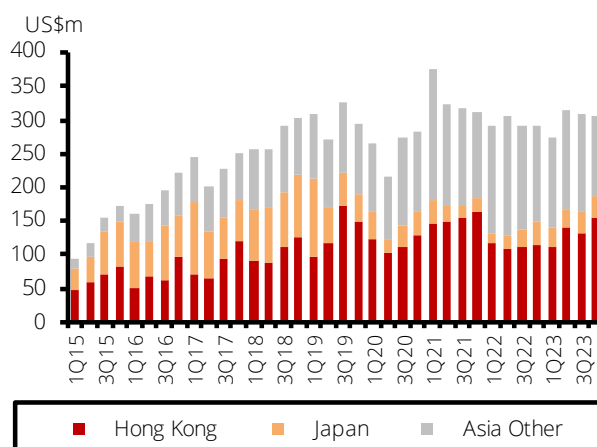
In Aug 2023, the Canadian Department of Finance released draft legislation to implement the Global Minimum Tax Act (GMTA), which will require multinational groups (MNE groups) to pay a top-up tax if the effective tax rate (ETR) is below 15%. Manulife expects the GMTA to lead to higher taxes in some of the low-tax jurisdictions that the insurer operates, while an additional 2%-3% may be added to the current ETR, taking it from 15%-20% to 17% to 22%, which may be enacted in 2Q-3Q24.

Fig 1. Asia insurance business APE by market



Source: Company reports, DBS HK

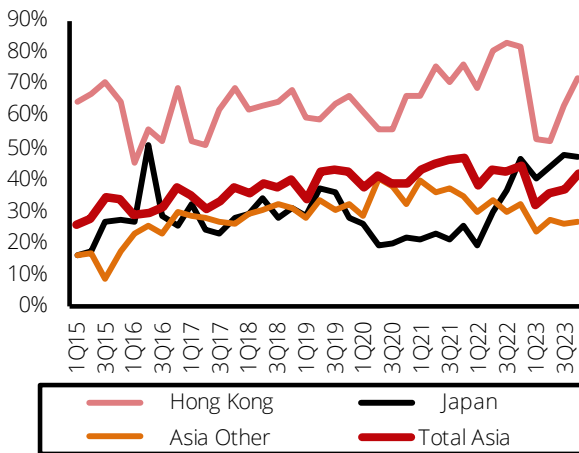
Fig 2. Asia insurance business VNB by market



Source: Company reports, DBS HK

Manulife

Fig 3. Asia insurance business VNB margin by market



Source: Company reports, DBS HK

- US commercial real estate risks manageable (+ve)**
 Despite facing secular headwinds in its North American offices, such as higher interest rates and rising vacancy rates, which have put pressure on the valuation of North American offices, Manulife has proactively cut its exposure to North American offices from 40% of the overall alternative long-duration asset (ALDA) portfolio to 10% currently. What's more, its real estate portfolio is diversified, with 38% located in the US, 32% in Canada, and 26% in Asia (30% of its

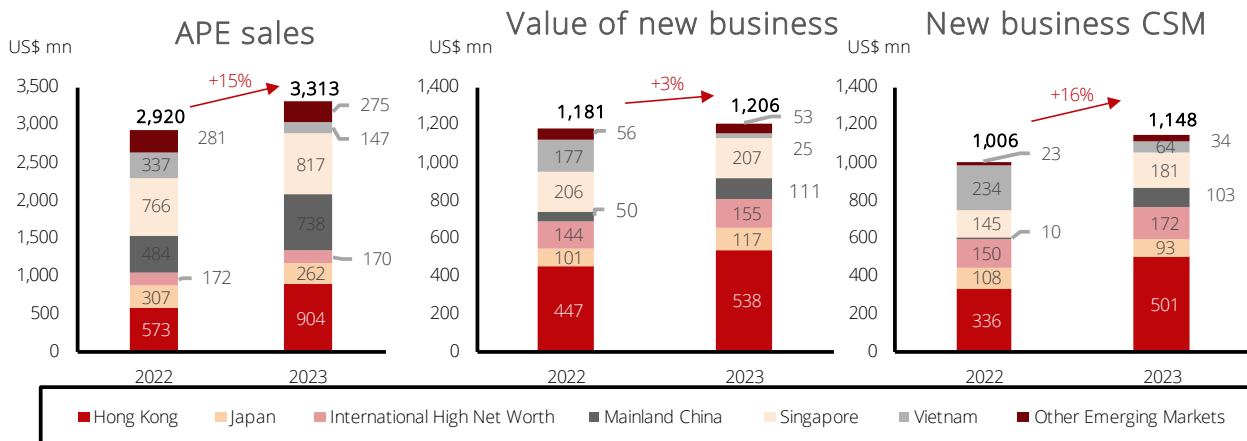
office portfolio is in Asia). The insurer will de-emphasise its exposure to office in North America going forward.

- Conservative assumptions for risk adjustment (+ve)**
 Manulife has adopted conservative assumptions in booking its risk adjustment balance, provisioning for non-financial risks, and when considering the key component of insurance contract liability, with a confidence level of 90%-95% compared to Asian peers' 75% and Canadian peers' 80%-90%. Choosing the higher end of the confidence interval during the transition year of 2022, Manulife is currently moving back towards the midpoint of the interval. Consequently, a significant part of the reduced risk adjustment will go into the contractual service margin (CSM), leading to a faster release of earnings going forward. It is important to note that these conservative assumptions solely reflect Manulife's actuary choices, and it has underwritten policies for similar customer profiles within respective markets compared to peers, thus indicating similar risk profiles.

Lift TP from HK\$182 to HK\$210, maintain BUY

With a better-than-expected new business outlook, we revise up FY24F/25F VNB growth by 9%/12% and revise down net profit by 2%/3%, respectively, to factor in a rising tax rate. Based on 0.9x (previously 0.8x) FY24F P/EV, we revise up our TP from HK\$182 to HK\$210. With a 10% share price upside, we maintain BUY on Manulife.

Fig 4. Asia insurance business growth by APE, VNB, new business CSM



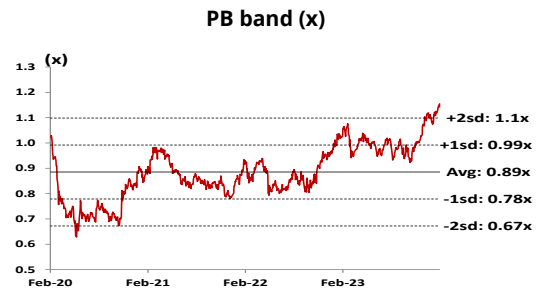
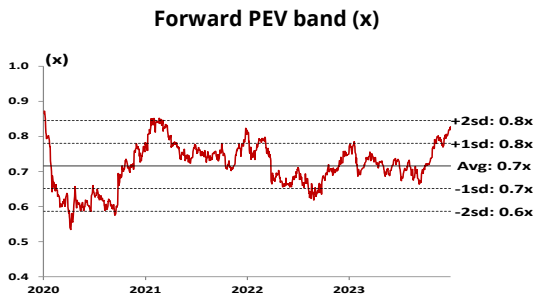
Source: Company reports, DBS HK

Manulife

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 FY23, its total assets and equity had reached C\$876bn and C\$49bn, respectively.

Historical PEV and PB band



Source: Bloomberg Finance L.P. DBS HK

Manulife

Key Assumptions

FY Dec	2021A	2022A	2023A	2024F	2025F
VNB growth	24.5	(8.0)	12.7	10.4	13.9
Net investment return	3.7	3.9	4.2	4.2	4.1
Total investment return	3.7	0.4	4.7	4.5	4.5
EV growth	6.1	(1.3)	2.6	6.3	7.3
Solvency ratio	244.4	220.8	186.7	187.1	189.9
CSM amortization rate	N/A	10.7	11.1	10.3	10.7
New business CSM (in C\$ m)	N/A	1,915	2,310	2,641	3,007
CSM closing balance (in C\$ m)	N/A	17,977	21,301	22,075	23,130

Source: Company, DBS HK

Income Statement (C\$ m)

FY Dec	2021A	2022A	2023A	2024F	2025F
Insurance revenue	N/A	23,118	23,972	25,447	27,167
Insurance service expenses	N/A	(19,335)	(19,382)	(20,411)	(21,898)
Net expenses from reins. contract held	N/A	(623)	(613)	(721)	(763)
Insurance service result	N/A	3,160	3,977	4,315	4,506
Investment return	N/A	337	18,021	17,930	18,238
Net finance expenses	N/A	(6,307)	(14,628)	(13,893)	(13,948)
Net investment result	N/A	(5,970)	3,393	4,037	4,290
Other revenues	N/A	6,186	6,746	7,559	8,111
Other expenses	N/A	(6,115)	(7,229)	(7,506)	(7,799)
Profit before tax	8,125	8,747	6,887	8,405	9,109
Income tax expense	(1,213)	(1,565)	(845)	(1,442)	(1,570)
Minority interest	(255)	1	(144)	(144)	(144)
Preferred dividend	(215)	(260)	(303)	(303)	(303)
Net income attributable to shareholders	6,890	7,034	5,235	6,156	6,732

Source: Company, DBS HK

Manulife

Balance Sheet (C\$ m)

FY Dec	2021A	2022A	2023A	2024F	2025F
Total Investment	427,098	400,142	417,210	431,973	431,973
Segregated funds net assets	399,788	348,562	377,544	377,544	377,544
Other assets	90,757	84,985	80,820	86,927	108,601
Total assets	917,643	833,689	875,574	896,444	918,118
Insurance contract liabilities	347,696	354,857	367,996	388,987	406,589
Investment contract liabilities	3,117	10,079	11,816	12,407	13,027
Segregated funds net liabilities	399,788	348,562	377,544	373,617	373,617
Other Liabilities	105,056	61,886	57,675	57,409	56,924
Total liabilities	858,774	785,463	826,847	844,827	863,184
Shareholder's equity	58,408	46,876	47,039	49,930	53,247
Participating policyholders' equity	(1,233)	(77)	257	257	257
Minority interest	1,694	1,427	1,431	1,431	1,431
Total equity	58,869	48,226	48,727	51,618	54,935

Source: Company, DBS HK

Key Financials & Ratios

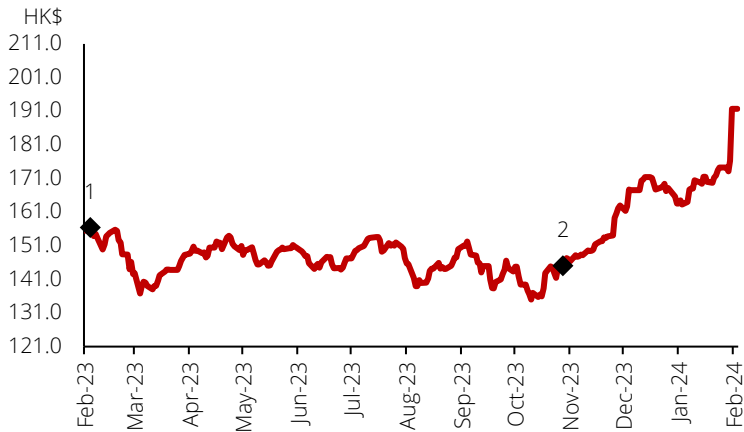
FY Dec	2021A	2022A	2023A	2024F	2025F
Du Pont analysis (%)					
Net profit / insurance revenue	N/A	30.4	21.8	24.2	24.8
Insurance revenue / total asset	N/A	0.7	0.8	0.8	0.8
Total asset / total equity	15.6	17.3	18.0	17.4	16.7
Return on equity	12.4	13.4	11.1	12.7	13.0
Embedded value (C\$ m)					
Book value	58,408	46,876	47,039	49,930	53,247
Adjusted items	(4,444)	6,639	6,639	6,639	6,639
Adjusted book value	53,964	53,515	53,678	56,569	59,886
Value-in-force	29,082	29,445	32,546	35,911	39,566
Adjustment (if any)	(18,243)	(19,016)	(19,586)	(20,174)	(20,779)
Group embedded value	64,803	63,944	65,638	69,805	74,922
Per share analysis (C\$)					
EPS	3.55	(1.18)	2.62	3.17	3.49
BPS	30.06	25.13	26.05	27.65	29.48
DPS	1.17	1.32	1.46	1.53	1.61
EVPS	33.35	34.29	36.34	38.65	41.49
Capital Strength (%)					
Leverage ratio	16	10	10	10	10
Solvency ratio	244.4	220.8	186.7	187.1	189.9

Source: Company, DBS HK



Manulife

Target Price & Ratings 12-mth History



S.No.	Date	Closing Price	Target Price	Rating
1	20-Feb-23	HK\$155.50	HK\$182.00	BUY
2	13-Nov-23	HK\$144.00	HK\$182.00	BUY

Source: DBS HK
 Analyst: Ken Shih
 Iris GAO

DBS Group Research 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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