Key Takeaways From SunLife's Third Quarter Earnings Report

Description

SunLife (TSX: SLF, NYSE:SLF) reported a loss of $520 million in Q3 versus a profit of $383 million last year, as a result of the sale of its US annuity business. Excluding the impact of this write down, earnings from continuing operations was $0.69 per share versus $0.77 per share in the same period last year.

Earnings Beat Expectations

The $0.69 per share in operating earnings compares favourably to analyst expectations of $0.64 per share. The better than expected results were driven by better than expected equity market performance and increases in longer term interest rates.

Sale of its U.S. Annuity Business

The sale of SunLife's U.S. annuity business was completed during the quarter and resulted in an $844 million charge. The sale of this business improves the risk profile of SunLife, as the annuities business is very dependent on equity markets and interest rates, variables that the company has no control over.

In response to years of historically low interest rates, Sun Life is executing a strategy of higher growth, higher ROE and lower volatility. This means lowering equity sensitivity and lowering interest rate sensitivity. To this end, as we know, Sun Life sold its US annuities business and reduced equity exposure by 50% and interest sensitivity by 35%, according to analysts. While they have effectively limited their upside when yields recover, predictability and lower volatility makes for a more attractive risk/reward profile.

Good Sales Growth Across Most Markets and Product Lines ….

Wealth and insurance sales increased 25% and 16% respectively. Premiums and deposits increased 21%.

….. at the Expense of Margins

Company-wide expenses rose a hefty 14%, of which Canada and Asia represented the highest increases. This was driven by the investments that SunLife is making to grow sales in these markets, such as expanding its sales force as well as other initiatives to increase SunLife's presence and market share.

Returns on the Insurance Side Leave Something to be Desired

On a company-wide basis, ROE was 12.6%. If we isolate the insurance side of the business, we see that ROE is in the high single digit area, which is below industry standard. Part of this is due to the low interest rate environment, which has resulted in required capital going up significantly. It is also due to increased investments to grow the business.

$2.1 billion Cash on the Balance Sheet

The sale of the U.S. annuity business has given SunLife $2.1 billion in cash to reinvest in the business or return to shareholders as it sees fit. Management reviewed the different possibilities that they are considering. Currently, all options are on the table.

Bottom Line

SunLife benefited this quarter from the macro environment. That is, a healthy equity market and a rise in long term interest rates. While this is of course welcomed, investors should keep a close eye on the more company specific variables going forward, such as expenses, and whether they can make improvements to their ROE.

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1. Investing

TICKERS GLOBAL

1. TSX:SLF (Sun Life Financial Inc.)

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Date
2025/08/26
Date Created
2013/11/08
Author
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