Which Life Insurer Belongs in Your Portfolio?

Description

Few sectors in Canada have gone on more of a wild ride over the last 10 years than life insurance. Before the crisis, insurers could do no wrong. Then once the financial crisis came, they became known as “black boxes”, meaning it is impossible to know what’s inside them. Now they are high flyers once again.

A good case in point is **Sun Life Financial** (TSX: SLF)(NYSE: SLF). An investment in the company would have returned 88% from 2004 through 2007. Then over the next four years, the shares lost more than half their value. The last two years have been much better, as the shares have gone up 117%.

Overall, the shares have returned 4.1% per year over the last 10 years. But where are they headed next? And what about Sun Life’s peers?

A simple comparison

The following table compares Canada’s three major life insurers based on the price/earnings, price/book, and capital ratios.

Company	Price/Earnings	Price/Book	Capital Ratio	Dividend Yield
Manulife	13.3	1.5	248%	2.4%
Sun Life	13.9	1.6	219%	3.7%
Great-West Lifeco	13.1	1.7	223%	4.1%

Amazingly, all three companies trade at multiples very similar to each other, so it can be hard to choose between them. But **Manulife Financial** (TSX: MFC)(NYSE: MFC) does stand out for a couple of reasons.

First of all, its capital ratio is easily the highest among the three insurers. This is likely due to the fact that the company still has serious scars from the financial crisis, a time when Manulife desperately needed capital but struggled to raise it. Likely for the same reason, Manulife has also been the most hesitant to return capital to shareholders, which explains its low dividend yield.

Great-West Lifeco: Less capital, greater dividends

Unlike Manulife, **Great-West Lifeco** (TSX: GWO) was not as badly scarred by the financial crisis, which allows the company to be more comfortable with a lower capital ratio and higher dividend payout. Investors looking for a stable company with a good track record and a solid dividend would certainly prefer Great-West to the other two companies on this list.

Foolish bottom line

These companies have all seen their share prices surge over the last couple of years, but there is still a strong argument for investing in all three of them. The price-to-earnings ratios are reasonable, and they will benefit when the Bank of Canada eventually raises interest rates.

But if I had to choose a single company from this list, it would have to be Manulife. The share price does not reflect the stable capital position the company has built up, again likely due to a hangover from the financial crisis. For investors willing to forego a juicier dividend, this stock remains a very compelling option.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:MFC (Manulife Financial Corporation)
2. TSX:GWO (Great-West Lifeco Inc.)
3. TSX:MFC (Manulife Financial Corporation)
4. TSX:SLF (Sun Life Financial Inc.)

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Date
2025/09/12
Date Created
2014/03/27
Author
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