Which Life Insurer Belongs in Your Portfolio?

Description

While much attention has been paid to the success of Canada's big banks, another branch of financial services has been doing just as well: life insurers. All three of Canada's largest in this industry have rebounded nicely since the financial crisis, and now are trading at healthy levels once again.

So which one is the best option for your portfolio? Below we take a look at each of the three major players in an effort to answer that question.

1. Manulife Financial

During the crisis, no Canadian life insurer was in more trouble than **Manulife Financial** (TSX: MFC)(NYSE: MFC). In the years that followed, the company struggled with a low interest rate environment. But since then, Manulife has done an excellent job turning the ship around; as a result, its shares have nearly doubled since July 2012.

So is it too late to buy? Well, the valuation ratios are not as high as they are for the Canadian banks. At 11 times earnings and 1.3 times book value, there still seems to be plenty of upside.

Longer term, the bank hopes to achieve "core" earnings of $4 billion in 2016, up from $2.6 billion in 2013. This will come from a number of different areas, such as the growth of business in Asia, greater earnings from wealth management, and "Efficiency and Effectiveness" cost savings of $400 million per year. If the company is able to execute, then there is in fact further upside for the shares; Manulife is currently valued at $37 billion, and will be worth a lot more if core earnings reach their target.

2. Sun Life Financial

Sun Life Financial (TSX: SLF)(NYSE: SLF) shares have also done remarkably well, nearly doubling since late 2011. How much more room do the shares have to run?

Sun Life's shares are a bit more expensive than Manulife's, currently trading at 13 times earnings and 1.45 times book value. And Sun Life isn't even as well-capitalized as Manulife, with a Minimum Continuing Capital and Surplus Requirements ratio of 221%, compared to Manulife's 255%.

One of the main reasons for Sun Life's more expensive ratios is its higher dividend, which yields nearly 4%. Manulife's yields only 2.6%. But that is not enough of a reason to choose Sun Life over Manulife. You're better off going with the cheaper stock.

3. Great-West Lifeco

Great-West Lifeco's (TSX: GWO) shares have not performed as well as the other two in recent years, mainly because they never were as depressed in the first place. But the company still has rewarded its investors over the past year, with its shares increasing by over 40%.

Its shares are not a grand bargain, trading at 1.8 times book value. But they're still not overly priced, at just over 12 times earnings. For a company with a better track record than Manulife and Sun Life, that's not too much to pay — especially since it has the highest dividend yield of the three, at 4.25%.

So which one?

At this point, it seems that Manulife is getting overly punished for its troubled history and low dividend yield. If you're willing to have a long-term time horizon, Manulife offers the most reward for the risk you're taking.

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.)

Category

1. Investing

Date
2025/08/26
Date Created
2014/06/02
Author
bensinclair