2 Reasons to Avoid Sun Life Financial Inc. and 1 Stock to Buy Instead

Description

In recent years, **Sun Life Financial Inc.** (TSX: SLF)(NYSE: SLF) has become a very popular stock to own, especially among dividend investors. And it's easy to see why. The company seems well past its troubles from the financial crisis, and is now firing on all cylinders.

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But there are legitimate reasons not to buy shares of Sun Life. Below we take a look at two of them, then reveal one stock you should buy instead.

2 reasons to avoid Sun Life

1. Not an optimal business mix

It's true that Sun Life is performing very well, and much of the credit goes to MFS, its U.S.-based money manager acquired all the way back in 1982. In fact, assets under management (AUM) at MFS reached a record $439 billion in the most recent quarter, a 24% increase year over year. The funds at MFS continue to perform very well — 91% of funds have better than average performance over the past three years. So the environment looks good for continued growth in AUM.

That being said, the real opportunity for growing business is in Asia, where Sun Life derives only 7% of its net income. The company hopes to increase that share to 12% by 2015, but that will not be easy, nor cheap. Prices for acquisitions have gotten very expensive, not surprising given that everyone wants a foothold in Asia.

2. Too high a price

Despite Sun Life's limited exposure to Asia, the shares trade at over 15 times earnings and 1.7 times book value.

One possible reason for this is the dividend yield, which comes in at a solid 3.4%. But this is not a good enough reason to pay such a high price for the company.

1 stock to buy instead: Manulife Financial Corp.

Manulife Financial Corp. (TSX: MFC)(NYSE: MFC) may not have as good a dividend yield as Sun Life, coming in at just 2.7%. But it's still a better option.

First of all, Manulife has a much stronger foothold in Asia, and thus has far greater potential to grow earnings. The Asia segment accounts for 28% of income, a hair higher than even Canada's share. Secondly, Manulife trades at just over 10 times earnings, far cheaper than Sun Life. It seems that Manulife trades at a serious discount, just because it doesn't offer as high a dividend.

There is yet another reason why Manulife makes a better option than Sun Life: capital. Manulife's Minimum Continuing Capital and Surplus Requirements (MCCSR) ratio stands at a very healthy 243%, ahead of Sun Life's 222%. So there should be plenty of room for Manulife to increase its dividend, buy back shares, or make strategic acquisitions.

In other words, there are plenty of ways for Manulife's shareholders to win.

CATEGORY

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

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