5 Big Reasons to Buy Sun Life Financial Inc. and Avoid the Banks

Description

Sun Life Financial Inc. (TSX: SLF)(NYSE: SLF) is trading at a five-year high as U.S. equity markets soar higher and investors search for safe places to get yield in the financial sector.

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Last month I discussed the reasons why the party is probably over for Canadian banks. The market is finally catching on as bank earnings disappoint and guidance for 2015 comes in lower than expected.

Here are five reasons I think new investors should consider Sun Life instead of the banks.

1. Rotation out of banks and oil

There aren't a lot of options right now for investors to get reasonable yield and low volatility. The oil producers are still being gutted and much of the money that was being channeled into the banks is looking for a different home.

Sun Life is one company that is benefitting from the search for safety and yield. For investors looking to have a position in the financial sector, Sun Life offers a chance to benefit from strong wealth management margins while providing much less exposure to the Canadian residential mortgage market.

2. Growth opportunities

As the banks struggle to squeeze more revenue from tapped out Canadian retail customers, Sun Life is building a very strong business providing insurance and wealth management products to Asia's rapidly growing middle class.

In the Q3 2014 earnings statement, Sun Life reported life insurance sales increases of 35% in Hong Kong, 24% in the Philippines, and 111% in China compared to the third quarter in 2013.

Sun Life also has a strong business in India where new regulations proposed by the government will allow foreign companies to nearly double their investments in the country's booming insurance industry.

3. Strong Results

Sun life reported Q3 2014 net income of $517 million, a 15% increase over the same period in 2013. Assents under management grew 18% to $698 billion.

4. Lower risk

After taking a beating during the Great Depression, Sun Life has reduced its exposure to shocks in the equity markets. As of September 30, 2014, Sun Life's sensitivity to a 25% drop in equity markets would be about $200 million.

Sun Life also has a strong capital position. The company's Minimum Continuing Capital and Surplus Requirements Ratio (MCCSR) for Q3 was 218%. The Canadian government requires insurers to maintain a ratio of at least 150%.

5. Valuation and dividend yield

Sun Life trades at about 14.5 times earnings, which is comparable to the top Canadian banks, and pays a dividend of $1.44 that yields about 3.3%.

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The bottom line

Senior managers at the banks have been warning investors for the last two quarters that 2015 is going to be a tough earnings environment. Right now, Sun Life's growth prospects look good and the company has a much smaller exposure to the Canadian residential housing market.

If you are looking for more companies that offer both stability and dividend income, the following free report is worth reading.

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1. Investing

TICKERS GLOBAL

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

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