



3 Reasons Sun Life Financial Inc. Belongs in Your Portfolio

Description

Financial stocks are usually a safe bet for investors, at least here in Canada. But as bank stocks have stumbled this year, dragged down by a sluggish economy, insurance shares have continued to shine, led by **Sun Life Financial Inc.** ([TSX:SLF](#))([NYSE:SLF](#)).

Strong earnings

Last week, the Toronto-based insurance company reported second-quarter operating net income of \$731 million, or \$1.19 per share, up from \$488 million, or \$0.80 per share a year earlier, easily beating analyst predictions of \$0.87 per share.

Continuing the momentum shown in the first quarter, each of the key operating segments demonstrated sequential earnings growth, noted Barclays analyst John Aiken in a report. “While the U.S. and MFS Investment Management earnings were aided by the weakened Canadian dollar, we note that both increased sequentially in U.S. dollar terms. Asia demonstrated strong core earnings growth but the standout remained the domestic operations, which grew earnings well above 20% both sequentially and year-over-year on a core basis.”

Despite the significant lift in earnings, Sun Life maintained its dividend at \$0.38 per share after announcing its first dividend hike since the financial crisis last quarter.

Acquisitions

Sun Life CEO Dean Connor believes the company has now entered an “opportunistic growth phase,” following a thorough cleanup of its risk profile after the economic crisis of 2008, which left many insurance companies struggling.

“We’re in a phase now where we are driving growth and we have positioned our balance sheet with enough excess capital and liquidity to take advantage of opportunities that we uncover to help accelerate that growth,” Connor said in an interview with the *Globe & Mail*.

In the second quarter, Sun Life acquired real estate investment manager Bentall Kennedy Group, investment manager Prime Advisors, as well as fixed income asset manager Ryan Labs, all U.S.

companies.

“We set out a deliberate list of companies—asset management firms—that we thought would be a great fit for our strategy,” Connor said, eventually reaching friendly deals with three firms. “Once completed, these acquisitions will be a part of Sun Life Investment Management, and will increase its third party assets to approximately \$50 billion,” he added in a statement.

Future prospects

It’s no secret that Canada’s two major insurance companies, Sun Life and **Manulife Financial Corp.**, see Asia as fertile territory. Connor told *Reuters* Sun Life wants to raise its stake in Birla Sun Life Insurance, a joint venture with Aditya Birla Group, India’s largest insurance company.

Earlier this year, India increased the proportion of foreign investment allowed in insurance companies, creating a potential opening for Sun Life. Connor said the company wants to raise its stake in the Birla JV to 49% from 26% currently. Asia contributed about 13% to Sun Life’s earnings in the second quarter, as net income from the region more than doubled.

All told, the future looks bright for Sun Life, especially if the U.S. Federal Reserve opts to increase interest rates later this year. Despite a high valuation of about \$45 per share, Sun Life, up 7% year-to-date, is a clear choice for investors looking for a buy-and-hold financial stock.

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