# Why Sun Life Financial Inc. Could Hit $49

## Description

Investors often shy away from stocks trading near 52-week highs, assuming there's little upside left. But a run-up doesn't mean a stock is overpriced, especially when you're talking about a company that has tremendous growth potential and few headwinds to worry about. **Sun Life Financial Inc.** (TSX:SLF)(NYSE:SLF) is a fine example.



Despite its recent run-up, you can still buy Sun Life cheaper than peer **Manulife Financial Corp.** (TSX:MFC)(NYSE:MFC). While the latter commands a valuation of 14.5 times earnings, Sun Life is trading under 13 times earnings.

In fact, Sun Life stock may have just entered a bull run. Last week Barclays upgraded its price target for Sun Life to $49, representing 10% upside from its current price. I believe Sun Life could easily hit that price point, not only because of its attractive valuation as highlighted above, but because the company is firing on all cylinders. Here's how.

### Strong operational performance

Sun Life delivered bumper second-quarter numbers earlier this month, with net income surging nearly 70% year over year. Excluding the impact of market-related factors like interest rates that can make earnings lumpy, Sun Life's net income grew 23% in Q2 as insurance and wealth sales climbed 8% and 25%, respectively. Its net premium revenue climbed 6% year over year.

With year-to-date underlying net income growing nearly 21%, Sun Life appears to be on track to a solid financial year. If interest rates in the U.S. are increased, Sun Life's earnings could grow even faster.

### Recent acquisitions a big growth catalyst

Sun Life announced two notable acquisitions last quarter—the acquisitions of investment management company Prime Advisors and real estate investment manager Bentall Kennedy.

The acquisitions should add nearly $50 billion to assets under management (AUM) of Sun Life Investment Management, which in turn complements the company's MFS Investment Management business. Two key figures to note here are as follows:

- MFS held AUM worth US$440 billion at the end of June 30, 2015;
- MFS contributes about 27% to Sun Life's net income.

Simply put, Sun Life is aggressively expanding its portfolio, which should push its profits higher in the near future.

**Strong financials and shareholder returns**

Sun Life increased its quarterly dividend by 6% this past May. While a consistent dividend payer, this hike comes after a gap of seven years, indicating management's improving confidence in the company's growth prospects. What's more, Sun Life currently yields 3.4% in dividends despite its recent run-up—still higher than Manulife's 3% dividend yield.

Sun Life also boasts strong free cash flows and held nearly $7.5 billion in cash and liquid securities of June 30, 2015. That gives the company leeway to not only reinvest more cash into growth through acquisitions, but also to boost shareholder returns. That's a win-win combination for any long-term investor.

Sun Life's shareholder are already enjoying good returns. The company sports a return of equity of 11.6% for the trailing 12 months compared with Manulife's ROE of about 9%.



Given the growth catalysts, I see no reason why Sun Life shouldn't continue to rise.

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1. Investing

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1. Editor's Choice

**TICKERS GLOBAL**

1. NYSE:MFC (Manulife Financial Corporation)
2. TSX:MFC (Manulife Financial Corporation)
3. TSX:SLF (Sun Life Financial Inc.)

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nehams