



Does Sun Life Financial Inc. Belong in Your Portfolio?

Description

What's the alternative to buying the banks?

A balanced portfolio should hold financial stocks, and the banks have always been the no-brainer choices, but many new investors are concerned that the banks could be in for a rough ride if the housing market crashes.

Investing in insurance companies is one way investors can play the Canadian financial sector without taking on too much housing risk and still get international exposure.

Let's look at **Sun Life Financial Inc.** ([TSX:SLF](#))([NYSE:SLF](#)) to see if it deserves a spot in your portfolio.

Earnings

Sun Life earned \$726 million in Q2 2015, a 49% increase over the same period last year. The company's operating return on equity jumped from 12.6% to 16.5% in the second quarter, and assets under management rose from \$684 billion to \$808 billion compared with Q2 2014.

Those are pretty solid numbers, and they send investors a strong message that Sun Life has fully recovered from the dark days of the Great Recession.

Revenue streams

Sun Life derived 39% of its Q2 income from the Canadian operations. In the U.S., the company actually has two large business units. The global wealth management division, MFS, added 27% of second-quarter earnings, while Sun Life U.S. contributed 16% of profits.

Sun Life's overseas subsidiaries continue to grow. Asia accounted for 11% of Q2 earnings, and the U.K. operations kicked in the remaining 7% of profits.

The balanced revenue base is attractive because it gives investors exposure to growth all around the

globe, which acts as a nice hedge against any weakness that could be on the horizon in Canada.

Investments

Sun Life continues to invest in areas it expects will deliver strong future growth. The company has acquired several businesses in the U.S. over the past year with a focus on asset management. This will help diversify earnings even more as the asset management revenues complement the existing insurance and wealth management operations.

Overseas, Sun Life is targeting opportunities in Asia, and one market that looks especially appealing is India. The company has a longstanding presence in the country through its Birla Sun Life partnership. New regulations in the country will allow Sun Life to boost its stake in Birla Sun Life from 26% to 49%. India is looking at explosive growth in the insurance sector in the coming years, and Sun Life should benefit.

Dividend growth

Sun Life battled through the Financial Crisis without cutting its dividend, but investors had to wait several years before seeing the distribution increase. This year they were finally rewarded for their patience when Sun Life raised the payout by 6%.

Sun Life pays a quarterly dividend of \$0.38 per share that yields about 3.5%.

With the balance sheet on solid footing and earnings on the rise, investors should see dividends grow at a regular rate going forward.

Should you buy Sun Life?

The company is in good shape, and the stars are finally starting to align for earnings growth. Once the U.S. begins to increase interest rates, money should start to flow into the insurers because a rising rate scenario tends to be positive for the sector.

If you are looking for a Canadian financial pick with global exposure, Sun Life is a solid choice.

CATEGORY

1. Investing

TICKERS GLOBAL

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

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