



Is Sun Life Financial Inc. a Buy After its Q3 Report and Dividend Increase?

Description

Sun Life Financial Inc. ([TSX:SLF](#))([NYSE:SLF](#)), the third-largest insurance company in Canada in terms of total assets, announced third-quarter earnings results and a dividend increase after the market closed on November 4, and its stock responded by falling over 1.5%. Let's take a thorough look through the quarterly report to determine if we should use this weakness as a long-term buying opportunity or as a warning sign.

Breaking down the third-quarter performance

Here's a summary of Sun Life's third-quarter earnings results compared with its results in the same period a year ago.

Metric	Q3 2015	Q3 2014
Underlying Earnings Per Share	\$0.86	\$0.84
Adjusted Revenue	\$5.57 billion	\$6.25 billion

Source: Sun Life Financial Inc.

Sun Life's underlying earnings per share increased 2.4% and its adjusted revenue decreased 10.8% compared with the third quarter of fiscal 2014. Its slight increase in earnings per share can be attributed to its underlying net income increasing 2.1% to \$528 million, driven by 102.1% growth to \$97 million in its SLF U.S. segment, 39.6% growth to \$67 million in its SLF Asia segment, and 4.8% growth to \$176 million in its SLF Asset Management segment.

Its steep decline in revenue can be attributed to its net premium revenue decreasing 21.6% to \$2.11 billion and its net investment income decreasing 31.4% to \$1.24 billion, and these declines were only partially offset by its fee income increasing 20.4% to \$1.34 billion.

Here's a quick breakdown of six other notable statistics from the report compared with the year-ago period:

1. Underlying net income decreased 26.6% to \$174 million in its SLF Canada segment
2. Total adjusted premiums and deposits decreased 7.7% to \$27.94 billion
3. Total assets under management increased 21.2% to \$846.16 billion
4. Book value per common share increased 15.7% to \$30.03
5. Cash flows provided by operating activities increased 32% to \$1.27 billion
6. Ended the quarter with \$7.91 billion in net cash, cash equivalents, and short-term securities, an increase of 88.1% from the beginning of the quarter

Sun Life also announced a 2.6% increase to its quarterly dividend to \$0.39 per share, and it will be paid out on December 31 to shareholders of record at the close of business on November 25.

Should you buy Sun Life on the dip?

It was a fairly weak quarter overall for Sun Life, and although the dividend increase was a major plus, I think its stock responded correctly by moving lower. With this being said, I think the decline also represents a great long-term buying opportunity, because the stock trades at very inexpensive valuations and has a high dividend yield.

First, Sun Life's stock trades at just 12.4 times fiscal 2015's estimated earnings per share of \$3.55 and only 11.4 times fiscal 2016's estimated earnings per share of \$3.85, both of which are inexpensive compared with its trailing 12-month price-to-earnings multiple of 12.8, its five-year average multiple of 17.3, and the industry average multiple of 22.1.

I think Sun Life's shares could consistently trade at a fair multiple of at least 15, which would place its shares upwards of \$57 by the conclusion of fiscal 2016, representing upside of more than 29% from today's levels.

Second, Sun Life now pays an annual dividend of \$1.56 per share, which gives its stock a 3.55% yield, and this is more than double the industry average yield of 1.5%. It is also important to note that the company has now raised its dividend twice in 2015, and its increased amount of cash flows provided by operating activities, including 45.9% year-over-year growth to \$2.73 billion in the first nine months of fiscal 2015, could allow for another increase in 2016.

With all of the information provided above in mind, I think Sun Life Financial represents one of the best value and dividend plays in the financial sector today. All Foolish investors should strongly consider making it a core holding.

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