Manulife Financial Corp. and Sun Life Financial Inc. Are Big Earnings Movers

Description

Manulife Financial Corp. (TSX:MFC)(NYSE:MFC) and **Sun Life Financial Inc.** (TSX:SLF)(NYSE:SLF) are two of the three largest insurance companies in Canada, and both of their stocks have moved lower following the release of their fourth-quarter earnings results.

Let's break down the reports to determine if the companies' stocks have responded correctly, then take a quick look at their fundamentals to determine if they represent long-term investment opportunities today.

Manulife Financial Corp.

Manulife Financial Corp. is the largest insurance company in Canada. It reported weaker-than-expected fourth-quarter earnings results before the market opened on February 11, and its stock has responded by falling over 10%. Here's a summary of six of the most notable statistics from the report compared with the year-ago period:

1. Core earnings increased 20.5% to $859 million
2. Core earnings per diluted share increased 16.7% to $0.42, which fell short of analysts' expectations of $0.45
3. Revenue before specific items increased 25.6% to $12.31 billion, which fell short of analysts' expectations of $12.99 billion
4. Total premiums and deposits increased 60.2% to $40.84 billion
5. Assets under management and administration increased 35.3% to $935.2 billion
6. Book value per common share increased 18.8% to $19.51

Overall, it was a solid quarter for Manulife, but the results did fall well short of analysts' expectations, so I think the weakness in its stock is warranted. However, I think the sell-off is overdone at this point and that the stock represents a great long-term buy for two reasons.

First, it's undervalued. Manulife's stock now trades at just 9.2 times fiscal 2015's core earnings per share of $1.68 and only 7.6 times fiscal 2016's estimated earnings per share of $2.04, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 95.4 and the industry average multiple of 16.2. It also trades at a mere 0.8 times its book value per share of $19.51, which is very inexpensive compared with its five-year average market-to-book value of 1.21.

Second, it has a great dividend. Manulife pays a quarterly dividend of $0.17 per share, or $0.68 per share annually, which gives its stock a high and safe yield of about 4.4%. It is also important to note that the company has raised its annual dividend payment for two consecutive years, and it is currently on pace for 2016 to mark the third consecutive year with an increase.

Sun Life Financial Inc.

Sun Life Financial Inc. is the third-largest insurance company in Canada. It reported better-than-expected fourth-quarter earnings results after the market closed on February 10, but its stock has responded by falling about 3%. Here’s a summary of six of the most notable statistics from the report compared with the year-ago period:

1. Underlying net income increased 79.4% to $646 million
2. Underlying earnings per share increased 78% to $1.05, surpassing analysts’ expectations of $0.87
3. Adjusted revenue increased 11% to $7.03 billion, surpassing analysts’ expectations of $6.95 billion
4. Total adjusted premiums and deposits decreased 6% to $30.94 billion
5. Total assets under management increased 21.4% to $891.33 billion
6. Book value per common share increased 15.4% to $31.02

Overall, it was a great quarter for Sun Life, and the results surpassed analysts’ expectations, so I do not think the weakness in its stock is warranted. With this being said, I think the weakness represents a great long-term buying opportunity for two reasons.

First, its stock now trades at just 9.8 times fiscal 2015’s underlying earnings per share of $3.76 and only 9.7 times fiscal 2016’s estimated earnings per share of $3.79, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 17.2 and the industry average multiple of 16.2. It also trades at a mere 1.19 times its book value per share of $31.02, which is very inexpensive compared with its five-year average market-to-book value of 1.27.

Second, it pays a quarterly dividend of $0.39 per share, or $1.56 per share annually, which gives its stock a high and safe yield of about 4.25%. It is also important to note that the company increased its dividend by 4.9% in 2015, and it is currently on pace for 2016 to mark the second consecutive year with an increase.

Does one of these insurance giants belong in your portfolio?

Manulife Financial and Sun Life Financial are both moving lower after releasing their fourth-quarter earnings results, but I think both declines represents great long-term buying opportunities. Foolish investors should take a closer look and strongly consider beginning to scale in to positions in one of them today.

CATEGORY

1. Dividend Stocks

2. Investing

TICKERS GLOBAL

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

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