Which Is the Better Buy: Manulife Financial Corp. or Sun Life Financial Inc.?

Description

In recent years, the two heavyweights of the Canadian insurance industry have moved away from their old bread-and-butter businesses towards wealth management in an effort to take advantage of the growing trend of retirement planning. Both have done a good job transforming their business models from commission based to fee based and, in the process, have become bigger competition for the banks.

While shareholders of **Sun Life Financial Inc.** (TSX:SLF)(NYSE:SLF) and **Manulife Financial Corp.** (TSX:MFC)(NYSE:MFC) can be thankful they've made this transition, investors interested in betting on them might want to consider the quality of their respective wealth management revenues before jumping on board.

Which is the better buy? Read on and I'll tell you.

Sun Life

Sun Life generated $123 billion in wealth revenues in 2015, 82% of which came from SLF Asset Management, its asset management business in the U.S. and Canada, which previously operated under the MFS Investment Management banner.

SLF Asset Management's revenues increased by 10% in 2015 to $100.5 million and finished the year with $630 billion in assets under management (AUM), a 26% increase year over year from 2014. Some of the AUM increase was helped along by three acquisitions in 2015: Bentall Kennedy, Prime Advisors, and Ryan Labs.

Its next biggest wealth revenue generator is SLF Canada, which had wealth sales of $14.6 billion in 2015, a 5.8% increase year over year from 2014. SLF Canada finished 2015 with $153 billion in AUM, an 8% increase from 2014.

Fee income–a big part of its wealth management business–accounted for $5.3 billion in 2015, a 20% increase over 2014; SLF Asset Management was 70% of that. Overall, fee income generated by the company as a whole represents 22% of Sun Life's overall adjusted revenue. Only two years earlier, that number was 600 basis points lower, pointing to some serious growth in this area.

Overall, Sun Life's underlying net income in 2015 was $2.3 billion. Assuming that the wealth segments of its Canadian, U.S., and Asian businesses each contributed about 40% of the annual operating net income, and SLF Asset Management generated $700 million in operating net income in 2015, overall, its wealth management businesses delivered $1.34 billion in 2015, or about 58% of Sun Life's total operating net income.

What about Manulife?

Wealth and asset management have become such an important part of Manulife's business model that it devoted a great deal of space to it in its 2015 annual report. It even went to the trouble of introducing greater wealth and asset management disclosure, making the hunt for the relevant information much easier than Sun Life's annual report. This in itself is a big plus. Investors don't have time to play hide and seek.

Its wealth and management business, WAM for short, encompasses mutual funds, group retirement, and savings products, along with institutional asset management across all major asset classes on a global basis. Currently operating in Canada, the U.S., Asia, and Europe, its wealth management business is growing externally through acquisitions and internally through increased sales of its products and services.

In terms of assets under management and administration, its wealth and asset management businesses increased almost $200 million, or 62%, to $511 million with acquisitions (both Standard Life's Canadian operations and New York Life's Retirement Plan Services business), delivering over half of the increase in net inflows ($34 billion); market changes accounted for the rest.

Its 2015 core earnings were $639 million, 27% higher than in 2014; the increase a result of higher fee income from higher average asset levels in North America. Contributing to the $34.4 billion increase in net inflows in 2015 were solid performances from its Canadian group retirement business, Canadian mutual fund business, U.S. retirement business, and John Hancock Investments.

Overall, Manulife's wealth and asset management business contributed 19% of its $3.4 billion in total core earnings in 2015.

Which is the better buy?

Well, if you believe, as I do, that wealth management is the future of financial services, Sun Life is clearly the better buy. It generates approximately 58% of its operating net income from wealth management products and services compared to 19% for Manulife.

Now if Sun Life could clean up its financial presentation as Manulife has, it might be crystal clear for all investors to see.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

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

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