



Sun Life Financial Inc.: A Worthy Addition to Your Portfolio?

Description

Sun Life Financial Inc. ([TSX:SLF](#))([NYSE:SLF](#)) is one of the world's largest insurance companies in the world with some of the leading financial products and services in the market. And since the Great Recession, it has fought hard to rebuild its business and reduce risk, so future economic problems don't push it into the grave.

After the financial crisis, it got out of the annuities business and focused its attention on generating stable fee-based revenue. While this might be less money during the good times, when things go south, Sun Life should be able to survive just fine.

And, like all financial product companies, it is dealing with some struggles. Primarily, it is finding it difficult to generate significant earnings due to the low interest rate environment we live in today. Its operating net income was \$474 million in Q2 16, which is down from \$731 million a year ago. Year-to-date, its operating net income is down by \$172 million year over year. And, as expected, its return on equity was only 10.1% in Q2—down from 16.5% last year.

All that being said, I'm actually very bullish on Sun Life and believe that it's going to be in a good position to shine in the coming years.

One of the big reasons for that is because of its expansion through acquisitions into the international markets. It purchased Prime Advisors Inc., whose clients are U.S. insurance companies looking to build custom fixed-income products, and Ryan Labs, which also provides fixed-income solutions targeted to pension funds.

In Asia, where half of the world's population is, the company is getting very bullish. It increased its equity in Birla Sun Life, a partnership in India. I expect this become a bigger piece of the pie as the insurance market grows in the country with 1.2 billion people. Sun Life purchased the pension business of FWD Life Insurance Company and will distribute pension products through FWD in Hong Kong. It also has operations in the Philippines, China, and Vietnam, to name just a few.

Ultimately, people want Sun Life's financial products. Its acquisitions, joint ventures, and organic growth resulted in a 26% increase to insurance sales and a small but steady 3% increase in wealth

sales. When interest rates go back up, this increase in sales will help considerably.

Because it has moved toward safer types of investments, investors should feel comfortable with the dividend.

Sun Life currently pays \$0.405 per share to investors, which is a strong 3.86% yield. What's nice is that the dividend continues to grow. Last year the company increased the yield by 8%. In May, management further increased the dividend by 4%, or 1.5 cents per share. So long as it continues to grow comfortably with new sales, I expect the dividend to stay secure and continue growing.

So, should you buy? I see no reason not to. It's a strong, well-diversified company that pays a lucrative, growing dividend. It survived the financial crisis and got out of its risky investments. When interest rates strengthen (and they're expected to), Sun Life should experience tremendous growth in its earnings, which will send shares and dividends much higher.

CATEGORY

1. Investing

TICKERS GLOBAL

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

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