



Sun Life Financial Inc. Dimmer on Gloomy Earnings Results

Description

Canada's third-largest life insurance company **Sun Life Financial Inc.** ([TSX:SLF](#))([NYSE:SLF](#)) reported earnings on Tuesday and missed expectations on bottom-line numbers. Wall Street expectations for Sun Life were for the company to report earnings of \$0.99 per share; however, the company reported earnings of \$0.93 per share. Earnings for the same quarter last year were 2% higher at \$0.95 per share.

The lacklustre results were spurred by weaker-than-anticipated growth in the U.S. market; the company's underlying net income fell more than 28% in the U.S. market. Sun Life's Canadian operations did comparatively quite well, posting 5% gains for the first quarter year over year.

Investors in Sun Life may also be concerned with the fact that the insurer's main competitor, **Manulife Financial Corp.** ([TSX:MFC](#))([NYSE:MFC](#)) reported an earnings beat alongside improved first-quarter numbers, exacerbating Sun Life's earnings miss further.

A few bright spots

Sun Life reported robust growth in top-line revenues for insurance sales and wealth sales segments, reporting increases of 58% and 13%, respectively. These solid top-line numbers were complemented by a robust return on equity (ROE) of 11.5%.

Sun Life also raised its dividend, announcing the increase during the earnings release. The insurer's dividend is set to increase 3.6% to \$0.435 per share from \$0.42 per share, bringing Sun Life's overall dividend yield to 3.56% at Tuesday's close. Sun Life has been very consistent in raising its dividend over time, and will be doing so for the foreseeable future. With this earnings blip raising concerns among some, the dividend increase should calm long-term, income-focused investors.

Outlook moving forward

In the company's financial statements, Sun Life noted a deterioration in morbidity rates in its U.S. market as well as the market-based impacts of interest rates and equity markets as a few of the key drivers of the decline year over year in addition to the unfavourable impact of hedges that did not

qualify for hedge accounting.

The company seems to suggest that it believes some of the issues faced with morbidity rates, interest rates, and equity markets may continue for some time.

Bottom line

The life insurance business is a competitive one, and it appears from the company's first-quarter results that it may be falling behind industry leaders, such as Manulife, in terms of profitability and execution. Manulife's portfolio of products combined with its strong Asian results have helped Manulife outperform Sun Life in the first quarter of the year. This indicates to investors that Sun Life's weakness, compared with the competition, may continue for some time.

Stay Foolish, my friends.

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