Sun Life Financial Inc. vs. Manulife Financial Corp.

Description

The insurance and financial services industry has been under more scrutiny of late with concerns of housing and auto loan bubbles, and the continuing promise from central banks that interest rate tightening is looming. The Bank of Canada followed through with its promise to raise interest rates on July 12, as it hiked the base rate 25 basis points to 0.75%. Analysts at **Toronto-Dominion Bank** remain confident that a second rate hike will come in October based on strong economic data.

Sun Life Financial Inc. (TSX:SLF)(NYSE:SLF) is a Canadian financial services and life insurance company. It is one of the oldest financial institutions in Canada and has a sizeable footprint in the asset management industry. On August 9, Sun Life released its second-quarter earnings for 2017. Underlying net income was reported at $689 million, which represented a 24% increase from Q2 2016. Global assets under management grew to $944 billion from $903 billion on December 31, 2016.

Total wealth sales increased 12%, and the board of directors announced the approval of a share-buyback program. A common share dividend of $0.43 per share was declared, representing a dividend yield of 3.63%. The stock has fallen 7% in 2017 as of close on August 23 in large part due to a disappointing first-quarter earnings report in February. It was also the victim of shockwaves felt from the crisis at **Home Capital Group Inc.** and Ontario housing overall.

Manulife Financial Corp. (TSX:MFC)(NYSE:MFC) is another Canadian insurance and financial services company based in Toronto. Manulife reported second-quarter core earnings of $1.17 billion, or $0.57 per share, compared to $833 million, or $0.40 per share, in Q2 2016. The company said that growth in core earnings included $154 million in investment gains and growth of $187 million due to gains in Asia and higher fee income from wealth and asset management. Insurance sales were also up $458 million in Canada compared to $338 million in the second quarter of 2016.

Manulife stock has gained 2.7% in 2017 and an impressive 41% year over year. It boasts a dividend of $0.20 per share, representing a dividend yield of 3.34%.

Both companies have benefitted from massive growth in Asian markets. The growing middle class in emerging markets is a natural target of expansion for insurance companies. The global middle class is expected to grow to over three billion in 2020 and close to five billion in 2030. By 2030, the middle class in Asia is expected to grow to 66% of the global middle-class population and 60% of middle-class consumption compared to about a third today.

With this in mind, the long-term outlook is promising for Manulife and Sun Life as both look to establish a footprint to capitalize off this trend. In the short term, concern over stunted growth in the banking sector due to a housing slowdown has also driven investors into the arms of insurers.

Both of these are solid long-term plays, but I like Sun Life after the announcement of its share-buyback program. This is a sign of capital strength, and it has the potential to power the share price to new highs.

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