Asia Propels These 2 Life Insurance Stocks

Description

Financials, which include life insurance companies, are benefiting from rising rates on both sides of the boarder. After being hit hard during the financial crisis, the insurance industry has finally shown signs of life. That being said, the S&P/TSX Life & Health Insurance index is still trading approximately 26% below its 2008 highs.

A rebounding economy and rising interest rates haven't done enough spark investor confidence in the sector. Investors need more. **Manulife Financial Corporation** (TSX:MFC)(NYSE:MFC) and **Sun Life Financial Inc.** (TSX:SLF)(NYSE:SLF) can provide more through a growing dividend and exciting growth opportunities in Asia.

Asian assets spur Manulife

In the year ended December 2017, Manulife posted core earnings growth of $4.6 billion, up 14% from the prior year. It has grown core earnings by a compound annual growth rate (CAGR) of 15% over the past five years. A good portion of this growth has been a result of its Asia expansion.

Since 2013, Manulife has grown sales in Asia at a CAGR of 27%, and it has added new business value of $926 million in 2017. Investors cannot discount the importance of the Asian market to Manulife. In 2017, Asia accounted for approximately 64% of company-wide insurance sales. Specifically, the company pointed to high-growth markets in Singapore and Vietnam as catalysts for its success in Asia.

Canadian dividend aristocrat

After years of stagnation, the company returned to dividend growth in 2014. Manulife unofficially regained Canadian dividend aristocrat status with its 7% dividend increase in February. Barring a significantly negative one-time event, the company will have effectively paid out more dividends in 2018 than in 2017. Looking forward, the company's payout ratio is expected to be in the neighbourhood of 35% in fiscal 2018, which leaves ample room for further dividend growth.

Sun Life finds success in India and the Philippines

Sun Life is relying on the expanding Asian middle class to offset lower earnings growth in Canada. SLF Asia's insurance sales grew to $687 million in 2017, and its wealth sales grew to $13,056 million. This represented year-over-year growth of approximately 9% and 48%, respectively.

SLF Asia accounts for approximately 12% of company-wide net income. India and the Philippines are highlights for the company. Sun Life is the number one insurance company in the Philippines and the third-largest mutual fund operator in India. The company expects to grow earnings by CAGR of 10% over the next few years and has a targeted return on equity between 12% and 14%.

Dividend growth in line with earnings

Sun Life only returned to dividend growth in 2015. The company has a targeted dividend-payout ratio between 40% and 50% of earnings. At the moment, its payout ratio stands at 42%, and investors can expect future dividend increases to match its earnings-growth rate. At a CAGR of 10%, Sun Life is an attractive income play.

Discounting tax breaks

The market is also discounting the tax benefits as a result of the U.S. tax reform attributed. Beginning this year, Manulife expects to realize an ongoing benefit to core earnings of approximately $240 million. Likewise, Sun Life is expected to benefit more than most, as it has one of the highest effective tax rates in the industry.

Both insurance companies are cheap, trading at forward price-to-earnings multiples of 8.46 and 10.54, respectively. Expect them to outperform the market over the next year.

CATEGORY

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2. Investing

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