A Closer Look at Great-West Lifeco Inc. and the Rest of Canada’s Life Insurance Industry

Description

Great-West Lifeco Inc. (TSX:GWO) caught the market off guard earlier this year when it reported a strong fourth quarter, including top-line growth of 13%, and raised its quarterly payout by 6%.

And despite suffering a pullback along with much of the rest of the market to start the year, Great-West Lifeco stock has rallied of late, up a little over 5% since the last week of March.

That has investors alerted to Canada’s life insurers including Great-West Lifeco, but also peers **Manulife Financial Corporation** (TSX:MFC)(NYSE:MFC) and **Sun Life Financial Inc.** (TSX:SLF)(NYSE:SLF).

Understanding where their focus is

It may come as a surprise to some to learn that a great deal of both Manulife’s and Sun Life’s time, money, and efforts are not actually directed at the Canadian domestic market, but they are, in fact, aimed at the supposedly more lucrative international markets, selling both insurance and wealth management products there.

In fact, Sun Life generated 12% of its net income in 2017 from life insurance offerings sold in Asia, behind only the United States as its second-largest market and ahead of the U.K. by 8%.

Manulife, meanwhile, is even less concentrated on the Canadian market.

In 2017, Manulife got less than 30% of its core earnings from the Canadian market, with the U.S. division under the John Hancock banner leading the way, followed by Asian geographies ahead of the Canadian unit.

That’s not to say that Manulife didn’t have a great first year under the leadership of new CEO Roy Gori.

2017 saw Manulife deliver strong growth across the board, including 17.5% growth in insurance sales and 15% growth in core earnings, both of which helped the company deliver a 11% annual dividend increase to its shareholders.

But while Sun Life and Manulife seem to be more focused on international markets, Great-West Lifeco has been busy picking up the slack back home.

A lot of Great-West Lifeco's strong fourth-quarter showing had to do with a 10% improvement in adjusted net earnings from its Canadian business unit, driven in part from continued expense reductions from the company's previously announced business-transformation initiative.

Which company has the superior dividend?

But at the end of the day, picking the right insurance company for your stock portfolio boils down to the best dividend, owing to the slow and steady nature of the insurance business as well as the fact that most insurance companies tend to pay out a good portion of their earnings to shareholders in the form of dividends.

In this respect, Manulife just doesn't match up to the other two.

Great-West Lifeco, meanwhile, has a markedly higher yield at 4.54% today than Sun Life, which currently pays shareholders 3.39%.

Both companies tend to pay out about half of their earnings, re-investing the other half in the business, but as Great-West Lifeco has been able to earn a higher return on its shareholders' capital, this should give it the edge, allowing for higher increases to the payout going forward, while retaining enough to sustainably grow itself for the future.

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2. TSX:GWO (Great-West Lifeco Inc.)
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