TFSA Investors: Should You Buy Manulife Financial Corporation (TSX:MFC) or Sun Life Financial Inc. (TSX:SLF) Stock Today?

Description

The pullback in the TSX Index has hit a number of industries, and while additional weakness could certainly be on the way, some stocks are starting to look oversold.

Let's take a look at two stocks in the Canadian insurance sector to see if one might be an interesting pick for your TFSA portfolio right now.

Manulife Financial (TSX:MFC)(NYSE:MFC)

Manulife suffered some serious pain during the Great Recession, and it took time for the company to get back on its feet, but the situation is starting to look better as we head into 2019.

The insurer generated Q3 2018 net income of $1.57 billion compared to $1.1 billion in the same period last year. Return on Equity (ROE) jumped to 15.1% from 10.8% a year earlier. Insurance sales increased 8%, supported by 13% growth in Hong Kong and Japan. Total assets under management increased 2% compared to Dec. 31, 2017.

During the crisis, management slashed the dividend by 50% from $0.26 per share to $0.13. Manulife has since returned to dividend growth and the latest hike of $0.03 per share announced at the time of the Q3 2018 earnings release brings the quarterly distribution to $0.25 per share. The new payout provides a yield of 4.6%.

Given the solid Q3 performance, investors should see another dividend increase in 2019.

Manulife continues to work on its efforts to improve operations and reduce risk. The company is using technology to make its business more efficient and recently announced three transactions to re-insure about $12 billion in policy liabilities and $1 billion on mortality and lapse risk. The moves will "release" $1 billion in capital over the next 12 months. By 2020, Manulife plans to unlock $5 billion in capital.

Manulife is planning to buy back up to 2% of its outstanding common shares over the next year. The stock currently trades at $21.75 compared to $27 in early 2018. It was above $40 per share before the crash took it down to $10.

Sun Life (TSX:SLF)(NYSE:SLF)

Sun Life managed to hold its dividend steady through the financial crisis and began increasing it again a few years ago.

In the Q3 earnings report, the company announced another 5% increase to the payout. The new quarterly distribution is $0.50 per share. That’s good for a yield of 4.1%.

Sun Life’s heavy investments in Asia over the past 20 years are starting to pay off. The company has subsidiaries or joint ventures in a number of attractive markets, including India, China, the Philippines, Vietnam, Malaysia, and Indonesia. With large populations and a growing middle class, the long-term growth opportunities are significant in these countries.

Asia contributed 17% of net income during the third quarter.

Sun Life reported underlying net income of $730 million in Q3 2018 compared to $643 million for the same period last year. Underlying ROE rose to 14% from 12.7%. Assets under management increased 5%.

The stock trades at $48.60 per share compared to the 12-month high above $55, which is pretty close to where Sun Life traded before the Great Recession hit.

Is one more attractive?

Manulife and Sun Life should be solid TFSA picks at this point. Both companies have removed risk from their businesses and the upward trend in interest rates should be positive for the entire insurance industry.

Manulife still has work to do on its turnaround program, but progress is being made. If you want to go with the contrarian pick, the insurance giant could deliver some nice upside in the next couple of years if things go as planned. Otherwise, Sun Life is a solid buy-and-forget name, and the dip from the 2018 highs might be overdone right now.

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