This Industry Is Ripe With Top Picks for Your TFSA and RRSP

Description

Insurance companies have had a difficult time gaining momentum. After the financial crisis decimated the industry, investors still have yet to fully embrace insurers. However, value investors recognize that these companies provide excellent value.

Last week, two of the largest life insurance companies, **Manulife Financial** (TSX:MFC)(NYSE:MFC) and **Sunlife Financial** (TSX:SLF)(NYSE:SLF) reported earnings. The outstanding results further exemplified that these stocks are trading at a significant discount.

Fourth-quarter earnings

For starters, both companies beat earnings estimates. Manulife posted adjusted earnings of $0.65 per share, thereby beating expectations by $0.17 or 35%. Likewise, Sunlife's earnings per share of $1.19 beat estimates by $0.03. This represented growth of 9.2% year-over-year for Manulife and 13.3% for Sunlife. For Manulife, it was a record quarter posting the highest core earnings and net income in its history.

Revenue at Sunlife grew 6.7% and Manulife came in with 8% growth. It was a strong quarter for both companies, who have been relying on Asia to boost income. As the market in North America matures, both insurers have been successful in looking beyond its traditional borders.

Manulife achieved $1.1 billion in new Asia business, up 19% over the previous quarter. Its Asia segment accounted for 80% of all new business in the fourth quarter. In comparison, Sunlife added $251 million in new business, up 24% over the third quarter.

The difference however, is that Asia only accounted for 20% of new business at Sunlife. For SLF, its primary growth market is the U.S., which accounted for 64% of new insurance sales.

Top value stocks

Manulife Financial posted a record quarter. Yet, it is still trading 17% below its 52-week high and is trading just below book value. It is trading at a trailing price-to-earnings (P/E) ratio of 9.21 a forward P/E of 6.88. Manulife's P/E to growth (PEG) ratio is 0.74 and a PEG below one signifies under-valuation. Finally, the company is trading below its own historical P/E, price-to-book and price-to-cash flow averages. By the same token, it is currently below industry averages on all these metrics.

No matter which way you look at it, Manulife is cheap.

Although not as cheap, Sunlife still provides investors with a great entry point. It is trading at a forward P/E of only 9.14 and a PEG of 1.24. Much like its competitor, the company is trading well below its historical averages. On the other hand, it is trading in line with industry averages, which isn't saying much given how cheap the industry is currently.

Foolish takeaway

The insurance industry has gotten a bad reputation. The financial crisis led to significant losses and massive dividend cuts. However, the industry has revamped policies and is much better positioned to weather another crisis.

This year, Manulife regained its status as a Canadian Dividend Aristocrat, having raised dividends for five consecutive years. Sunlife is not far behind and has been raising dividends twice yearly over the past few years. It should achieve Aristocrat status next year.

Both companies are cheap with limited downside. It's time for investors to take another look at the industry. Manulife and Sunlife would make excellent additions to your TFSA and RRSP portfolios.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:MFC (Manulife Financial Corporation)
2. TSX:MFC (Manulife Financial Corporation)
3. TSX:SLF (Sun Life Financial Inc.)

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