Better Buy: Manulife Financial (TSX:MFC) or Sun Life Financial (TSX:SLF)?

Description

It's been a few years since I invested in insurance companies. It was probably back in 2015 when I last looked at the Canadian insurers as investment options. I had bought them years before that, around 2011. At the time, the world was still recovering from the financial crisis and low interest rates and quantitative easing were assumed to be ending in the not-so-distant future.

Back then, I held both **Sun Life Financial** (TSX:SLF)(NYSE:SLF) and **Manulife Financial** (TSX:MFC)(NYSE:MFC). My thesis all those years ago was that interest rates would rise, as the economy got back on its feet. When interest rates rose, I imagined the insurance companies would benefit and their stock prices would take off.

While Sun Life did have a pretty significant run, Manulife floundered. Even when rates did rise, nothing happened to the stocks. Instead of gaining value, they actually pulled back. I became disillusioned with the sector, finally sold my shares, and forgot about them for a few years.

Now, I have decided to look at them again to see if anything has changed. As hard it is to believe, eight years after I initially entered a position in the stock, we are still waiting for rates to rise substantially. The increase in rates was very short-lived — insanely so, in fact. That particular piece of the puzzle seems to be gone for good. However, in spite of the lack of interest rate growth, I thought it might be time to take another look at these investments. Are they good investments today, or should we stay on the sidelines in regards to insurance companies as an investment choice?

Valuation

On a price-to-earnings (P/E) basis, both stocks appear to be reasonably priced. Manulife trades at a P/E of only 11 times trailing earnings, and Sun Life is trading at a slightly more expensive multiple of 16. On a forward earnings basis, Manulife looks even cheaper with a P/E of 8.5. Sun Life still appears to be slightly more expensive with a forward P/E of 11.79 times earnings.

Looking at their price-to-book (P/B) values, Manulife appears to trade closer to its book value with a P/B of 1.13. Again, Sun Life is the more expensive of the two with a P/B of 1.81. Overall, Sun Life appears to trade at a premium to Manulife.

Dividend

Neither dividend is particularly attractive over the other on an absolute yield basis. Manulife currently has a yield of about 3.77%, while Sun Life's dividend sits at around 3.42%. Really, neither one of these yields is more appealing than another.

Dividend growth is a different story. One important fact is that Manulife slashed its dividend in half during the financial crisis. Investors with long memories, maybe those who had been burned, might not think too kindly of Manulife if they were the recipients of that decreased payout. Sun Life, however, did not slash its dividend.

If that fact does not bother you, considering it was a decade ago, you might solely base your decision on dividend growth. Manulife, post-cut, has been raising its dividend for the past several years, often in the high single digits. Sun Life has also been increasing its dividend. In 2019, Sun Life increased its dividend by 5%.

Operations

Both Manulife and Sun Life have operations in Canada, the United States, and Asia. This leaves both companies with a highly diversified income stream. Their businesses are very similar, leaving little operational difference between the two.

The bottom line

There are two criteria for choosing these stocks, in my opinion, seeing as their diversified operations are very similar. Manulife is the cheaper choice, while Sun Life has had more secure operations and dividend payments over the last couple of decades. Personally, since the yields are pretty close, I would probably choose Sun Life over Manulife.

That being said, right now, I would not choose either. I am frustrated with the low-rate environment, as are the insurance companies. Both of these companies have made excellent strides diversifying their businesses in spite of the macroeconomic challenges, but these operational changes have made them venture into riskier investing realms. For this reason, I would not yet invest in any insurance provider.

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