TFSA Investors: Why You Should Buy Insurers Over Bank Stocks

Description

Banks performed very well until September 2018, when investors started losing interest in banks due to concerns about falling interest rates, quality of mortgages, and high levels of consumer debt.

In 2019, shares of Canada's largest banks rose 14%, including dividends, which is below the total return of 23% of the TSX. Banks have struggled to achieve solid results due to rising loan losses and eroding net interest margins, which have hurt their profitability amid economic growth concerns. This prompted analysts to moderate their forecasts for 2020.

Life insurers stocks, however, saw a 40% increase in 2019. Investors are betting on insurers after taking a cautious view of the Canadian economy, which is suffering from a period of sluggish growth. It's rare that lifeco stocks outperform bank stocks, but this trend should persist as long as growth concerns for banks stay high.

So, if you are thinking of buying bank stocks in your TFSA, you might want to reconsider your decision. Insurers stocks have better growth prospects at the moment.

Manulife Financial (TSX:MFC)(NYSE:MFC) and **Sun Life Financial** (TSX:SLF)(NYSE:SLF) are among those Canadian life insurers that have performed well recently. In the fourth quarter, both companies posted a 10% gain in underlying earnings thanks to improving equity markets.

Sun Life's net profit jumped 24% to $719 million in the fourth quarter. Its activities in Asia contributed $136 million to this result — 9% more than in the same period a year earlier.

The company also achieved insurance sales of $361 million in Asia — an increase of 44% over the same period in 2018. In contrast, insurance sales in Canada increased by 4%, while sales in the United States decreased by 4%.

Like many other insurers, Sun Life has focused its attention on the Asian market. Asia is a largely under-penetrated insurance market, so the fight is at the distribution level.

Sun Life’s most important markets are Hong Kong and the Philippines, which are both profitable markets. As it continues to grow there in particular, the Toronto-based insurer expects that some benefits will come from these places.

Sun Life’s net income surged 24% to $719 million in the fourth quarter. The insurer earned $1.22 a share in the quarter ended December 31, up from $0.96 per share a year ago. Excluding one-time items, underlying earnings increased by 10.3% to $792 million or $1.34 per share. For the full year, net profit grew by 3.8% to $2.62 billion.

Sun Life’s stock is cheap with a forward P/E of only 10.9.

Manulife’s profits were also boosted by opportunities on the Asian continent.

The Toronto-based insurer increased its quarterly dividend by 12% after ending a more vigorous 2019 financial year, marked by growth of more than 10% in Asia.

Manulife said it would increase its payment by $0.03 per share to $0.28, payable March 19 to shareholders of record on February 25. It added that it had made a profit of $1.23 billion for the quarter ended December 31, up from $593 million made a year earlier.

Last year’s net income included a restructuring charge. Excluding non-recurring items, core earnings increased 10.5% to $1.48 billion. Earnings per share were $0.73 compared to $0.65 a year earlier. For the full year, its net earnings grew 16.7% to $5.6 billion.

Manulife’s stock is very cheap with a forward P/E of only 7.6.

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1. Bank Stocks
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1. Editor's Choice

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

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