



Should I Buy These 2 Ridiculously Cheap Financial Stocks?

Description

This is an absolutely mad market. There are the haves and the have nots in this market – and it's more apparent than is normal. On the one hand, you have high flying technology stocks which retain and even exceed their pre-crisis levels.

On the other, you have economy-linked stocks, especially financials, energy, and REITs which have yet to gain any ground since their lows.

The financial sector is hard-hit and has yet to rebound, but remains relatively more attractive than the energy companies or REITs. These companies are Canadian institutions that have been dividend payers and value creators for generations. When they are trading at these low levels, it is tempting to buy shares.

The insurers, especially **Manulife Financial Corp.** ([TSX:MFC](#))([NYSE:MFC](#)) and **Sun Life Financial Corp.** ([TSX:SLF](#))([NYSE:SLF](#)), are trading [at cheap valuations](#).

Should you be a buyer at these levels, or is it time to stay away from all financials?

Valuations are attractive

Manulife is incredibly cheap at these levels. It is trading at a forward price-to-earnings (P/E) ratio of 6.7 times earnings. Its price-to-book (P/B) is calculated at 0.65 times book value. That is incredibly cheap when you consider that this is one of Canada's greatest companies.

While Sun Life is not quite as cheap, it's still reasonable as a value purchase. It is trading at 10 times forward earnings and at 1.3 times book value, which doesn't make it a screaming bargain like Manulife, but it certainly is a reasonably priced stock.

The dividends are attractive

Both of these stocks have great yields that have been growing for several years. Manulife has a yield of just under 7% currently. Sun Life has a yield that is a little lower at just under 5%. These stocks are

quite secure, given the strength of their businesses and their cash positions, although it is difficult to guarantee anyone's dividend at the moment.

The growth rate on their dividends was pretty healthy as well. Sun Life increased its dividend by 5% in the fall. Manulife also increased its dividend by 12% in February. The fact that the companies increased their dividends should give investors some confidence in their commitments to the payouts.

Then what's the problem?

Everything looks great for these stocks at the moment. As a value investor, these look like no-brainer buys. I am stuck, though, on one thought. These stocks, especially Manulife, have gone nowhere for a decade.

Manulife has been cheap and a great deal for ages, which makes me somewhat fearful about it going forward. It also cut its dividend in the financial crisis adding uncertainty to the stock.

Sun Life has been a much better performer over the past decade. Its dividend was never cut, unlike Manulife, and it has gained in value, more than doubling even at this reduced price level. Still, it's [being punished](#) for similar reasons to Manulife. There are likely to be insurance claims if health conditions persist, and interest rates certainly aren't going higher.

The Foolish takeaway

The stock you prefer to own will come down to your own personal views on where the market is going. I assume that interest rates are going to remain low for a while, so unless there is a huge increase in inflation, the insurers will not benefit from rates.

Sun Life is the safer play, as is evidenced by the higher multiple and the lower yield. Manulife is more of a riskier stock, although I think it is on a similar playing field when it comes to the underlying business.

I'm both a glutton for punishment and a sucker for value, so I would prefer Manulife at the moment. I believe it still has more upside than Sun Life and a higher yield. It is trading at a much cheaper valuation for reasons that I believe, are in the past.

I personally think this is at least as strong a company like Sun Life, so I would rather own this name here.

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.)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date

2025/08/25

Date Created

2020/05/14

Author

krisknutson

default watermark

default watermark