Income Investors: Should You Buy Manulife (TSX:MFC) or Sun Life (TSX:SLF)?

Description

Canadian income investors have a lot of great value options today. Consider **Manulife** (TSX:MFC)(NYSE:MFC) and **Sun Life Financial** (TSX:SLF)(NYSE:SLF): two bruised insurance plays that soared 3.6% and 5.5%, respectively, on Wednesday, as growth to a backseat to value in the first time in quite a while thanks in part to a Democratic sweep in Georgia's U.S. Senate runoffs, which increases the odds of U.S. corporate tax hikes and tougher business regulations.

Manulife and Sun Life stock have been picking up traction in recent months. But shares of both insurers remain well off their pre-pandemic highs, with handsome yields of 4.8% and 3.7%, respectively.

Manulife

Manulife stock is a value stock that hasn't looked back since surging out of its March lows. While the macro picture isn't ideal for the life insurers, it could improve in a meaningful way once COVID is finally conquered.

The insurer also showed signs of resilience in its latest (third) quarter, with its Asian business, the main attraction for many Manulife investors, posting an 8% jump in core earnings. Manulife's global wealth and asset management business also grew by 9%. Management has done a great job of managing expenses through this crisis, with subtle improvements to its expense efficiency ratio, which fell to 51.2% for the quarter.

Manulife isn't out of the woods yet. The insurer still faces profound headwinds in this pandemic-plagued environment. That said, I think MFC stock is on a sustained rally back to pre-pandemic levels thanks in part to good expense management and the prospects of a meaningful economic recovery in late 2021. The stock trades at a nearly 10% discount to its book value and is a compelling buy for value-conscious dividend investors.

Sun Life

Sun Life is another insurer that could continue to rally on the back of a broader economic recovery. The company recently beat on earnings once again, thanks in part to its robust Asian business and strength in asset management. As the company continues to expand into the “growthy” Asian markets, investors can expect a good mix of capital appreciation and dividend hikes over the coming years.

Sun Life stock trades at 1.4 times book value at the time of writing, which is cheap but is considerably more expensive than its top peer Manulife. The dividend yield is also just over a full percentage point lower. Why pay more for less yield with SLF stock?

Sun Life is a premier player in the insurance scene with a better historical track record. Manulife stock got caught with its pants down during the Financial Crisis and has yet to fully recover over 12 years later. Sun Life recently broke out to a new all-time high before the COVID crisis hit. Once the pandemic ends, I suspect it’ll be off to the races again for shares of Sun Life, which has done a terrific job of managing through a horrific 2020.

Which dividend stock is the better buy?

Both insurers are in a spot to benefit from strength in the Asian market and are a great long-term hedge for your portfolio against rising interest rates, as each firm will see their earnings rise in conjunction with rates. While I’m a big fan of Sun Life’s business, I’d have to say that Manulife stock is the better buy today, because I don’t think the wide discount to its peer is warranted — that, and the yield is more bountiful.

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

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Date
2025/08/24
Date Created
2021/01/08
Author
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