



Sun Life or Manulife Stock: Which Is the Better Buy?

Description

Sun Life Financial ([TSX:SLF](#))([NYSE:SLF](#)) and **Manulife Financial** ([TSX:MFC](#))([NYSE:MFC](#)) are both in the life and health insurance industry and are exposed to the same challenges, such as a low interest rate environment. They have, in their investment portfolios, exposure to fixed-income securities, such as bonds, that return interest.

For example, the benchmark interest rate in Canada has declined persistently since the global financial crisis of 2007/2008. Currently, the rate sits at a historic low of 0.25%.

A comparison of the two dividend stocks in multiple perspectives can reveal which may be the better buy.

Business overview

Sun Life has a more diversified business. Its key net income is roughly diversified as follows: 32% in asset management, 25% in individual insurance, and 21% in group insurance. Geographically, it earns about 31% of net income in Canada, 16% in Asia, 16% in the U.S., and 5% in the United Kingdom. Its asset management net income is earned across North America, Europe, Asia, and Australia.

Manulife has greater exposure to Asia, which contributes about a third of its core earnings. It also earns about 31% and 18% from the U.S. and Canada, respectively, while global wealth and asset management contribute approximately 17%.

Through the global financial crisis and beyond

Due to the slide of interest rates, Sun Life and Manulife stocks declined significantly, as their earnings dwindled during the financial crisis. Thankfully, both have adapted and recovered substantially. From 2007 to 2020, Sun Life's adjusted earnings per share (EPS) increased by 38%, while Manulife's adjusted EPS declined by 3%.

More recent returns

A look at their five-year returns could be telling as well. How have they fared in the low interest rate environment more recently?

Sun Life has outperformed in total returns in the period, but the same investment in Manulife returned about 12% more in dividend income.

Specifically, SLF stock delivered total returns of approximately 12.7%. About 29% of the returns came from its dividend. MFC stock delivered total returns of roughly 10.4% and dividends contributed about 42% of the returns.

This phenomenon is due to Sun Life stock having better price momentum and trades at a higher valuation likely due to the expected more stable earnings from its more diversified business. Thereby, it also provides a lower yield than Manulife at this time.

Valuation and dividend safety

At writing, Sun Life stock trades at \$65.40 per share with a blended price-to-earnings ratio (P/E) of about 11.1. It also offers a yield of almost 3.4%. Its payout ratio is estimated to be about 36% this year.

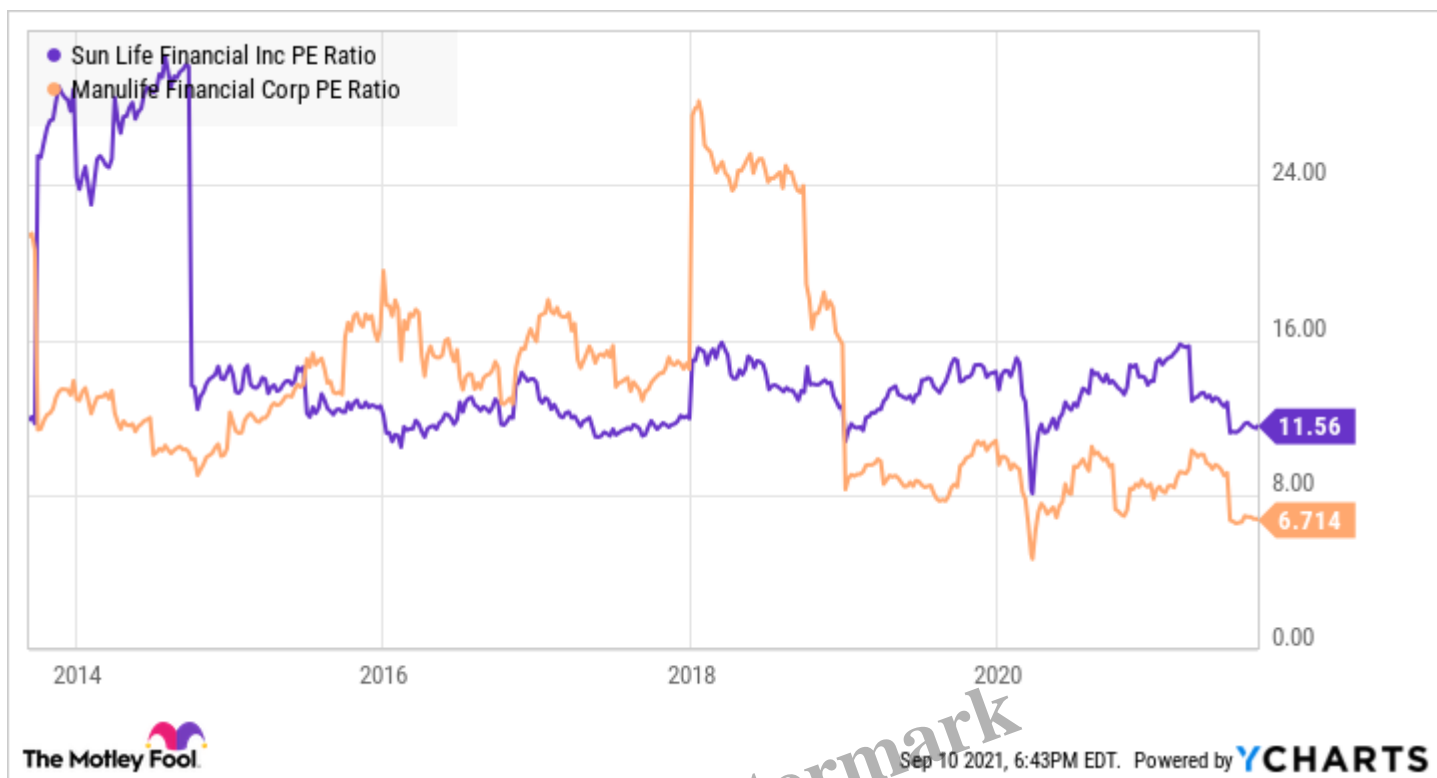
Then there's Manulife stock, which trades at \$24.44 per share with a blended P/E of 7.8 and provides a yield of close to 4.6%. Its payout ratio is expected to be about 34% this year.

Both stocks provide safe dividend income. However, Manulife is cheaper and provides a higher yield.

The Foolish investor takeaway

So, which insurer is [the better buy](#)? It depends on what you're looking for.

Occasionally, Manulife stock has traded at a higher valuation than Sun Life, as shown in the chart below. Since MFC stock trades at a lower multiple now, it's possible for buyers now to get a higher total return from it if they sell opportunistically when it trades at a high P/E. In the interim, MFC buyers will also likely pocket more passive income.



P/E Ratio data by YCharts.

That said, risk-averse investors would probably be more comfortable investing in Sun Life stock, which should provide a more stable ride and lower uncertainty.

Let's not forget that a resumption of interest rate hikes down the road should drive greater growth for both [dividend stocks](#).

CATEGORY

1. Dividend Stocks
2. Investing

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

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