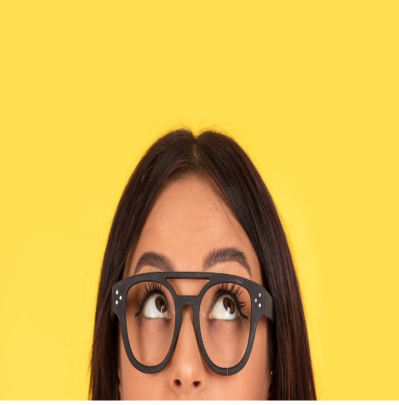

18% or More Dividend Increases at 2 Dividend Stocks: Which Is a Better Buy?

Description

After about one year and eight months, the regulator finally feels it's safe enough for our federally regulated financial institutions to increase their dividends and make stock repurchases. Immediately, life and health insurers **Manulife Financial** (TSX:MFC)(NYSE:MFC) and **Sun Life Financial** (TSX:SLF)(NYSE:SLF) made massive dividend hikes.

Both companies have investment portfolios exposed to fixed-income securities, such as bonds, that return interest. Therefore, the dividend increases are a boost of confidence for investors, as the insurers are supposedly challenged by low interest rates.

Let's see which may be a better buy today.

Earnings power unfazed by low interest rates

Sun Life's earnings power was unfazed by low interest rates and the pandemic last year. Its three-year earnings-per-share (EPS) growth rate was 9.8% per year through 2020. The dividend stock also increased its dividend per share by 7.9% annually in this period.

Unlike Sun Life, Manulife saw a 7% EPS decline last year. Investors can rest assured, though, because a big rebound in earnings is expected this year. Its three-year earnings-per-share (EPS) growth rate was 7.4% per year through 2020. The dividend stock also increased its dividend per share by nearly 11% annually in this period.

Big dividend hikes

Because the regulator, the Office of the Superintendent of Financial Institutions (OSFI), prevented dividend stocks like Manulife and Sun Life from increase their dividends for a long time, and because their earnings power remains strong, their payout ratios remain sustainable. Therefore, they were able to make big dividend hikes when OSFI lifted the ban.

Manulife increased its dividend by 18%, while Sun Life hiked its dividend by 20%. Investors can now pick up shares of Manulife for a yield of about 5.3% and Sun Life for a yield of 3.7%. MFC and SLF stocks' payout ratios will be about 41% and 44%, respectively.

Investors can view the dividend hikes as a stretch over the 20 months or so, which indicates an annualized increase of approximately 8.2% and 9.5%, respectively for MFC and SLF. These growth rates better align with the expected growth rates of the two solid stocks.

Which dividend stock is a better buy?

Sun Life has been the darling with an S&P credit rating of A+. It has price momentum, which is why the stock provides a lower yield than Manulife. Sun Life appears to be fairly valued based on its historical valuation. However, at $70.52 per share at writing, it trades at a price-to-earnings ratio (P/E) of about 11.9 — a cheap multiple for an expected growth rate of about 9% over the next three to five years.

Manulife is a value stock. Therefore, it provides 41% more dividend income than Sun Life. Its S&P credit rating of A also indicates a financially strong company. At the recent quotation of $24.98 per share, MFC stock trades at a dirt-cheap P/E of about 7.9 for a growth of about 8% annually.

You'll make good returns with either stock. However, Manulife stock could beat Sun Life from the help of valuation expansion. If Manulife can close the value gap and trade at a multiple of about 11.4, it would deliver total returns of about 17% per year over the next five years and outperform Sun Life by about 5% annually.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

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. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News

8. Yahoo CA

PP NOTIFY USER

1. kayng
2. kduncombe

Category

1. Dividend Stocks
2. Investing

Tags

1. Editor's Choice

Date
2025/08/17
Date Created
2021/11/15
Author
kayng