Should You Buy Sun Life Stock or Manulife Stock?

Description

Insurance stocks are down amid the broader market correction. Investors seeking attractive dividends for Tax-Free Savings Account (TFSA) passive income or long-term total returns on a self-directed Registered Retirement Savings Plan (RRSP)are wondering which insurance stocks might be undervalued and good to buy today for a buy-and-hold portfolio.

Sun Life

Sun Life (TSX:SLF) has a current market capitalization of $31 billion. The company operates insurance, wealth management, and asset management businesses primarily in Canada, the United States, and Asia.

Sun Life stock trades near $54 compared to the 2022 high of $74. Investors who buy the shares at the current price can pick up a 5.1% dividend yield.

Sun Life increased the quarterly dividend by 20% late last year from $0.55 per share to $0.66. The board then increased the payout again after the results of the first quarter (Q1) of 2022 to $0.69 per share. These moves suggest the management team isn't too concerned about the revenue and profits outlook over the next few years, even amid ongoing COVID-19 challenges and the risk of a global recession.

Sun Life generated underlying net income and underlying earnings per share for the first half of 2022 that essentially matched the same period last year. The underlying return on equity slipped from 15.5% to 14.5% but is still strong.

Manulife

Manulife (TSX:MFC) also operates insurance, wealth management, and asset management businesses largely focused on Canada, the United States, and Asia.

The company has a current market capitalization of $40 billion. Manulife stock trades near $21 per share at the time of writing compared to $28 earlier this year. Investors who buy the stock can now get a 6.25% dividend yield.

Manulife generated record profits in 2021. This year has been more difficult due to the impact of the Omicron variant in the first part of 2022 and the plunge in equity markets through Q2 and Q3.

For the first half of 2022, Manulife generated core earnings of $3.1 billion compared to $3.3 billion in the first six months of 2021. Core return on equity dropped to 12% from 13.8% in the same period last year.

Manulife raised the quarterly dividend by 18% late last year to $0.33 per share. The company is also buying back stock with excess funds and repurchased 2% of the outstanding shares in the first two quarters of 2022.

Is one more attractive?

Manulife is generally viewed as a higher-risk pick among the two stocks. The company was forced to slash its dividend by 50% during the Great Recession to protect cash flow due to heavy losses taken on the U.S. variable annuities business. Management has done a good job of reducing market risk from the legacy operations. Earlier this year Manulife completed a deal to reinsure more than 75% of the U.S. variable annuity block at its John Hancock subsidiary. The deal unlocked about $2 billion in capital and meaningfully reduced sensitivity to volatility in equity markets.

Sun Life and Manulife both appear oversold and should be attractive picks for a TFSA or RRSP portfolio. I would probably split a new investment between the two stocks today. If you only choose one, Manulife offers a better dividend yield right now for investors seeking passive income, and the risk of another dividend cut should be very low.

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