Sun Life Financial (SLF)

Updated June 19th, 2018 by Jonathan Weber

Key Metrics

Current Price:	$41	**5 Year CAGR Estimate:**	12.4%	**Quality Percentile:**	N/A
Fair Value Price:	$44	**5 Year Growth Estimate:**	7.3%	**Momentum Percentile:**	N/A
% Fair Value:	93%	**5 Year Valuation Multiple Estimate:**	1.5%	**Total Return Percentile:**	N/A
Dividend Yield:	3.6%	**5 Year Price Target**	$63	**Valuation Percentile:**	

Overview & Current Events

Sun Life Financial is a financial services company that offers insurances, wealth management, group benefits and retirement services, etc. Sun Life Financial has divisions that operate in the US, in Canada, and in Asia. Sun Life Financial was founded in 1865, is headquartered in Toronto, Canada, and is currently valued at $25 billion.

Sun Life Financial's most recent quarterly results were announced on May 8th. The company reported earnings per share of C$1.26 (equal to $0.95, an increase of 35% year over year). Revenues totaled C$5.99 billion, a decrease from C$7.0 billion in the previous year's first quarter.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$1.05	$0.71	$2.09	---	$1.72	$2.09	$2.15	$2.66	$3.02	$2.93	***$3.54***	***$5.04***
DPS	$1.08	$1.08	$1.08	$1.08	$1.08	$1.08	$1.08	$1.13	$1.22	$1.31	***$1.47***	***$2.16***

Sun Life Financial reported compelling earnings growth between 2008 and 2017 (earnings per share grew by 12.1% annually in that time frame), but the last financial crisis impacted Sun Life Financial considerably, as profits declined from 2007 to 2008 as well as from 2008 to 2009. Unlike many of its peers Sun Life Financial managed to remain profitable during the last financial crisis.

During the most recent quarter Sun Life Financial managed to increase its profitability substantially, thanks to strong growth in all of its business segments. Assets under management growth drove earnings increases for the assets management business, and thanks to a strong performance of the assets that are managed by MFS assets under management will likely continue to grow. Favorable pricing and a high rate of renewals drove profits for Sun Life Financial's US business. The net margin for the segment is now one and a half times as high as it was three years ago.

Sun Life Financial will also continue to benefit from attractive market growth rates in the Asian markets it is active in/ Sun Life Financial is pursuing additional customer growth in this attractive market in the future, and as insurance sales grew by 18% during the most recent quarter the company's strategy for Asia is seemingly paying off.

Sun Life Financial has set targets for the medium-term future, which include earnings per share growth of 8%-10% annually, an underlying return on equity of 12%-14% and a dividend payout ratio of 40%-50%. The earnings per share growth rate is slightly lower than the average since 2008, but higher than the average over the last couple of years—over the last two years EPS grew by just 5% annually. In order to be a bit on the conservative side we will therefore assume that EPS will grow by slightly less than the targeted pace going forward.

Sun Life Financial has kept its dividend unchanged for several years following the financial crisis, but has started to raise its payout again in 2015. Dividends will likely continue to grow by a high-single digits pace going forward.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	28.7	30.1	10.5	-	10.0	11.4	13.7	11.7	10.8	12.5	***11.6***	***12.5***
Avg. Yld.	3.6%	5.0%	4.9%	5.3%	6.3%	4.5%	3.7%	3.6%	3.7%	3.6%	***3.6%***	***3.5%***

During the last financial crisis, when Sun Life Financial's profits were relatively low, its share price remained relatively high, which led to a high valuation. As profits normalized its valuation has declined, it is currently a bit lower than the historic median P/E ratio. Shares therefore have some valuation expansion upside right now, investors also get a relatively high dividend yield of 3.6%, which is high relative to the broad market's dividend yield.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
Debt/A	90.6%	85.5%	92.4%	92.8%	92.7%	91.6%	91.5%	91.4%	91.3%	91.5%	***91.5%***	***91.0%***
Int. Cov.	2.5	1.2	5.1	1.4	5.7	6.9	8.1	10.0	11.9	10.2	***11.0***	***12.0***
Payout	103%	152%	51.7%	-	62.8%	51.7%	50.2%	42.5%	40.4%	44.7%	***41.5%***	***42.9%***
Std. Dev.	38.9%	63.2%	27.2%	26.5%	25.6%	17.3%	17.1%	18.3%	25.5%	15.8%	***18.0%***	***19.0%***

Sun Life Financial is highly leveraged, but that is not a problem and relatively usual for companies in this industry. Despite its high leverage Sun Life Financial has strong interest coverage, which has improved substantially over the last couple of years.

Over the same time frame Sun Life Financial's dividend payout ratio declined and is now in the 40%-50% range. Management has stated that this is where the dividend payout ratio should remain going forward.

Sun Life Financial is not the biggest asset manager, but it is the market leader in several categories. The company is well positioned in the US Group Benefits market, in the Canadian insurance and wealth solutions markets, and Sun Life Financial is also holding a strong position in higher-growth Asian markets such as Indonesia, Malaysia, Vietnam, etc.

The last financial crisis hurt Sun Life Financial's profitability, but the company remained profitable (unlike many of its peers). Less severe recessions will have a less severe impact on Sun Life Financial, thus risks seem negligible in the foreseeable future, as the economy is doing well in the US, Canada, and globally.

Final Thoughts & Recommendation

Sun Life Financial is well positioned in attractive markets, and management has keen targets over the coming years. Thanks to a compelling dividend yield and an inexpensive valuation a high-single digits earnings per share growth rate could still be turned into double-digit total returns over the coming years, which makes Sun Life Financial look attractive at the current valuation. The stock is a potential buy at current prices for investors looking for financial sector exposure.

Total Return Breakdown by Year