Sun Life Financial (SLF)

Updated August 9th, 2018 by Jonathan Weber

Key Metrics

Current Price:	$40	**5 Year CAGR Estimate:**	12.9%	**Volatility Percentile:**	40.8%
Fair Value Price:	$44	**5 Year Growth Estimate:**	7.3%	**Momentum Percentile:**	40.3%
% Fair Value:	90%	**5 Year Valuation Multiple Estimate:**	2.0%	**Valuation Percentile:**	78.4%
Dividend Yield:	3.6%	**5 Year Price Target**	$63	**Total Return Percentile:**	84.5%

Overview & Current Events

Sun Life Financial is a financial services company that offers insurances, wealth management, group benefits and retirement services. 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 currently trades with a market capitalization of $25 billion.

Sun Life Financial reported its second quarter earnings results on August 8. The company earned C$1.20 ($0.92) per share during Q2, an increase of 7% year over year. Revenues totaled $5.8 billion during the second quarter, the same as during the previous year's Q2.

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. 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 second quarter Sun Life Financial managed to increase its profitability substantially. 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. Sun Life Financial was also able to increase its insurance sales by 12% year over year. Sales in the wealth segment were down compared to the prior year's level, though. Overall, company-wide revenues were unchanged from the prior year's quarter.

Sun Life Financial will 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. Insurance sales for SLF Asia grew by 25% during the second quarter, the company's strategy for Asia is thus 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	***11.3***	***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%***

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

Sun Life Financial's valuation has been in a very wide range over the last decade, but when we exclude the years during the financial crisis, it's mostly been valued at a low double digit PE ratio. Shares look slightly undervalued at 11 times this year's earnings. Shares of Sun Life Financial offer a relatively attractive dividend yield of 3.6%.

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.

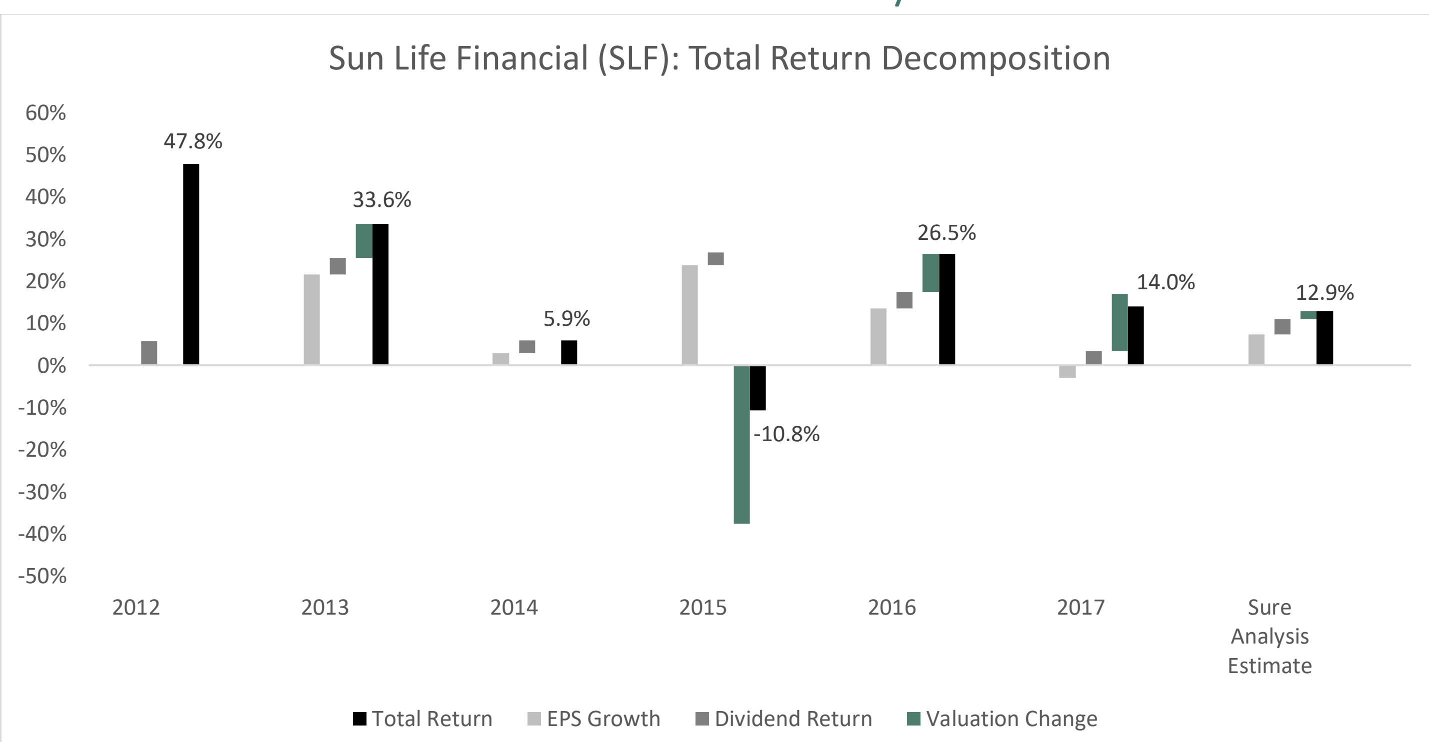
Sun Life Financial is not the largest or most well-known asset manager, but it is the market leader in several categories. The company is well positioned in the US Group Benefits market, in the Canadian insurance and wealth solutions markets, and Sun Life Financial is also holding a strong position in several higher-growth Asian markets.

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 smaller 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 has performed well after the financial crisis. Due to a strong position in growth markets Sun Life Financial will likely produce solid earnings growth through 2023. Shares of the company have a compelling total return outlook and could be a buy for income investors or those seeking exposure to the financial industry.

Total Return Breakdown by Year



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