Sun Life Financial (SLF)

Updated November 8th, 2018 by Jonathan Weber

Key Metrics

Current Price:	$38	**5 Year CAGR Estimate:**	14.6%	**Volatility Percentile:**	38.3%
Fair Value Price:	$44	**5 Year Growth Estimate:**	7.3%	**Momentum Percentile:**	39.6%
% Fair Value:	85%	**5 Year Valuation Multiple Estimate:**	3.2%	**Growth Percentile:**	69.8%
Dividend Yield:	4.1%	**5 Year Price Target**	$63	**Valuation Percentile:**	81.5%
Dividend Risk Score:	D	**Retirement Suitability Score:**	C	**Total Return Percentile:**	86.6%

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 $23 billion. Sun Life Financial is a Canadian company that reports its results in Canada. The numbers in this report have been converted to U.S. Dollars.

Sun Life Financial reported its third quarter earnings results on November 7. The company generated revenues of C$6 billion (US$4.7 billion), an increase of 8.1% compared to the prior year's quarter. Revenue growth was impacted by higher wealth management revenues due to an increase in the company's assets under management. Sun Life Financial generated earnings-per-share of C$1.20 (US$0.94) during the third quarter, an increase of 14.3% year over year. Sun Life Financial also increased its dividend by 5% in November. The new quarterly payout is C$0.50 (US$0.39).

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***
Shares	560	564	574	588	590	609	613	613	613	611	***607***	***590***

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 first three quarters of 2018 Sun Life Financial managed to increase its profitability substantially, which is why the company's profits should hit a record level this year. Assets under management growth drove earnings increases for the assets management business, and thanks to a strong performance of the assets that the company manages, assets under management will likely continue to grow. 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, both for its insurance business as well as for its wealth management business.

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 earnings-per-share grew by just 5% annually. We are forecasting 7.3% annual growth moving 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	***10.7***	***12.5***
Avg. Yld.	3.6%	5.0%	4.9%	5.3%	6.3%	4.5%	3.7%	3.6%	3.7%	3.6%	***4.1%***	***3.5%***

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Sun Life Financial trades at an inexpensive valuation of less than eleven times this year's expected net profits. This is a low valuation relative to how the company's shares were valued in the past, and it represents a discount relative to our fair value estimate. Multiple expansion will thus likely be a tailwind going forward, while the dividend yield is also quite attractive at 4.1%. Sun Life Financial has, unlike many of its peers, not cut the dividend during the last financial crisis.

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%***

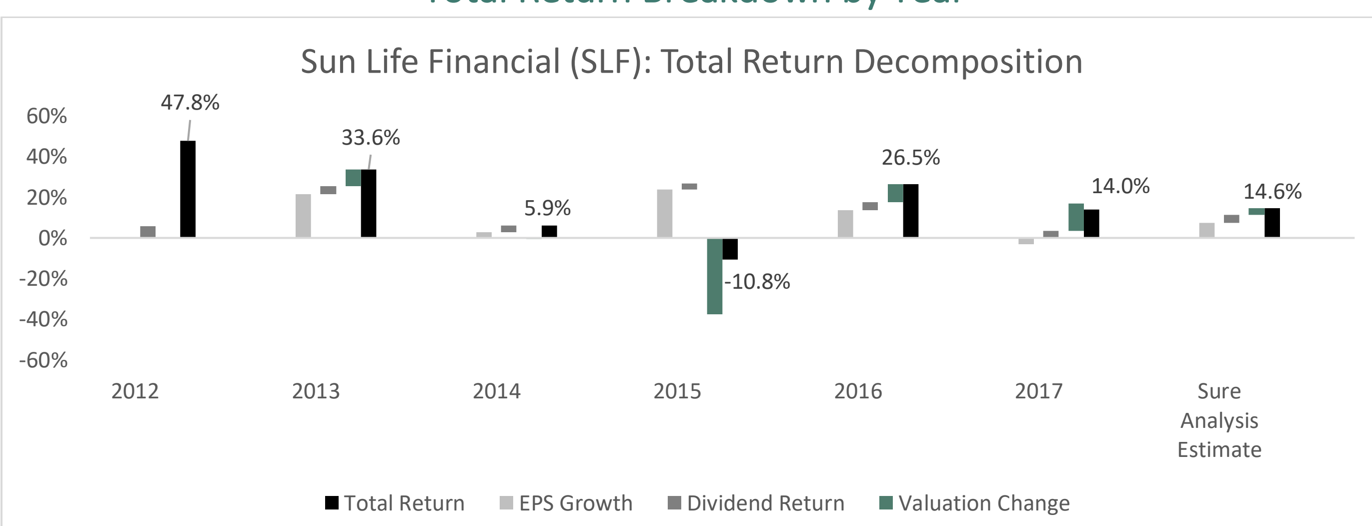
Sun Life Financial is highly leveraged, but that is not a problem, and relatively usual for companies in this industry. Not all of Sun Life Financial's liabilities consist of interest-bearing debt, which is why despite its high leverage, Sun Life Financial has strong interest coverage. The interest coverage 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% target 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 also holds a strong position in several higher-growth Asian markets. The last financial crisis hurt Sun Life Financial's bottom line, 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 is a well-positioned asset management and insurance company that has delivered a strong growth rate over the last couple of years, and that will report new record earnings during fiscal 2018. Sun Life Financial offers an attractive dividend yield and a compelling total return outlook. Because of this, Sun Life Financial earns a buy recommendation from Sure Dividend at current prices.

Total Return Breakdown by Year



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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.

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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	14656	24273	24046	20055	17564	13473	23337	15101	21576	22634
SG&A Exp.	1373	4259	3405	2658	2899	3374	3394	3256	3770	4168
Net Profit	805	548	1461	-264	1674	1029	1697	1790	1949	1730
Net Margin	5.5%	2.3%	6.1%	-1.3%	9.5%	7.6%	7.3%	11.9%	9.0%	7.6%
Free Cash Flow	1334	3124	-989	2623	572	544	1634	3412	2671	1390
Income Tax	-323	-477	342	-153	210	275	445	469	467	233

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets ($B)	150.63	113.97	210.21	213.79	227.00	187.39	192.41	177.89	191.54	214.01
Cash & Equivalents	N/A	N/A	3608	4368	3473	3165	2901	4812	4968	4848
Acc. Receivable	N/A	1298	1539	1382	1362	1747	1494	1374	2078	1671
Goodwill & Int.	6068	6971	5095	4728	4798	4572	4317	4414	5207	5447
Total Liab. ($B)	136.47	97.48	194.14	198.46	210.37	171.10	176.15	162.45	174.94	195.74
Accounts Payable	N/A	1246	1516	2157	2067	1283	1825	1780	2032	1568
Long-Term Debt	4536	7841	6276	7274	7343	7006	6106	5701	5661	5573
Total Equity	14129	14801	14030	12872	14116	13948	14313	13687	16285	17750
D/E Ratio	0.32	0.48	0.39	0.47	0.44	0.43	0.38	0.37	0.35	0.31

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	0.6%	0.4%	0.9%	-0.1%	0.8%	0.5%	0.9%	1.0%	1.1%	0.9%
Return on Equity	5.1%	3.8%	10.1%	-2.0%	12.4%	7.3%	12.0%	12.8%	13.0%	10.2%
ROIC	3.8%	2.5%	6.3%	-1.2%	7.2%	4.4%	7.4%	8.2%	9.0%	7.5%
Shares Out.	560	564	574	588	590	609	613	613	613	611
Revenue/Share	26.08	43.19	39.35	34.58	29.08	21.94	37.70	24.44	34.86	36.63
FCF/Share	2.37	5.56	-1.62	4.52	0.95	0.89	2.64	5.52	4.31	2.25

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.