Sun Life Financial Inc. (SLF)

Updated February 14th, 2019 by Jonathan Weber

Key Metrics

Current Price:	$35	**5 Year CAGR Estimate:**	16.9%	**Volatility Percentile:**	29.6%
Fair Value Price:	$45	**5 Year Growth Estimate:**	7.3%	**Momentum Percentile:**	24.2%
% Fair Value:	78%	**5 Year Valuation Multiple Estimate:**	5.3%	**Growth Percentile:**	73.0%
Dividend Yield:	4.3%	**5 Year Price Target**	$65	**Valuation Percentile:**	87.3%
Dividend Risk Score:	D	**Retirement Suitability Score:**	C	**Total Return Percentile:**	93.1%

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 $21 billion. Sun Life Financial is a Canadian company that reports its results in Canadian Dollars. The numbers in this report have been converted to US$ unless noted otherwise.

Sun Life Financial reported its fourth quarter and full year earnings results on February 13. The company generated revenues of CAD$8.3 billion during the fourth quarter, which is equivalent to US$6.2 billion. This was 6.7% more than the revenues that Sun Life Financial generated during the fourth quarter of fiscal 2017. Sun Life Financial increased its insurance sales tremendously over the last year, as the fourth quarter's insurance sales were up 19% compared to the prior year's quarter. Wealth sales grew slightly as well, but Sun Life Financial's assets under management declined by 2.5% compared to the prior year's quarter. When we factor in the impact of the harsh equity markets during the fourth quarter of 2018, the decline in the company's assets under management was still relatively benign, though, especially compared to the declines that other asset managers suffered from.

Sun Life Financial generated underlying net profits of CAD718 million, which was 12% more than the company's net profits during the previous year's quarter. Sun Life Financial's earnings-per-share totaled CAD$1.19, which is equal to US$0.89, during the fourth quarter. This was 13% more than the company's earnings-per-share during last year's quarter, and also well ahead of the analyst consensus, who had generally assumed profits would drop year-on-year.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	$0.71	$2.09	---	$1.72	$2.09	$2.15	$2.66	$3.02	$2.93	$3.65	***$3.95***	***$5.62***
DPS	$1.08	$1.08	$1.08	$1.08	$1.08	$1.08	$1.13	$1.22	$1.31	$1.48	***$1.60***	***$2.55***
Shares	564	574	588	590	609	613	613	613	611	602	***595***	***580***

Sun Life Financial reported compelling earnings growth between 2008 and 2017. Earnings-per-share grew by 13.3% 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. Earnings-per-share grew by 11.8% annually since 2013.

In 2018 Sun Life grew its profits at a considerable pace. Looking ahead, Sun Life Financial will benefit from attractive market growth rates in the Asian markets it is active in. The company is pursuing additional customer growth in these attractive markets in the future, both for its insurance business as well as for its wealth management business. Assets under management were down in 2018, but if there is no equity market turmoil in 2019, AuM should grow again.

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 target is slightly lower than the average since 2008, but still relatively attractive. We are a bit more conservative, as we are forecasting an earnings-per-share growth rate of 7.3% going forward.

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Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	30.1	10.5	-	10.0	11.4	13.7	11.7	10.8	12.5	9.0	***8.9***	***11.5***
Avg. Yld.	5.0%	4.9%	5.3%	6.3%	4.5%	3.7%	3.6%	3.7%	3.6%	4.5%	***4.3%***	***3.9%***

Sun Life Financial has not traded at an overly high valuation throughout much of the last decade. More recently its valuation has declined to an even lower level, though, which is why we believe that shares are substantially undervalued right here. The low share price allows for an above-average dividend yield for Sun Life Financial's owners.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	152%	51.7%	-	62.8%	51.7%	50.2%	42.5%	40.4%	44.7%	40.5%	***40.5%***	***45.4%***

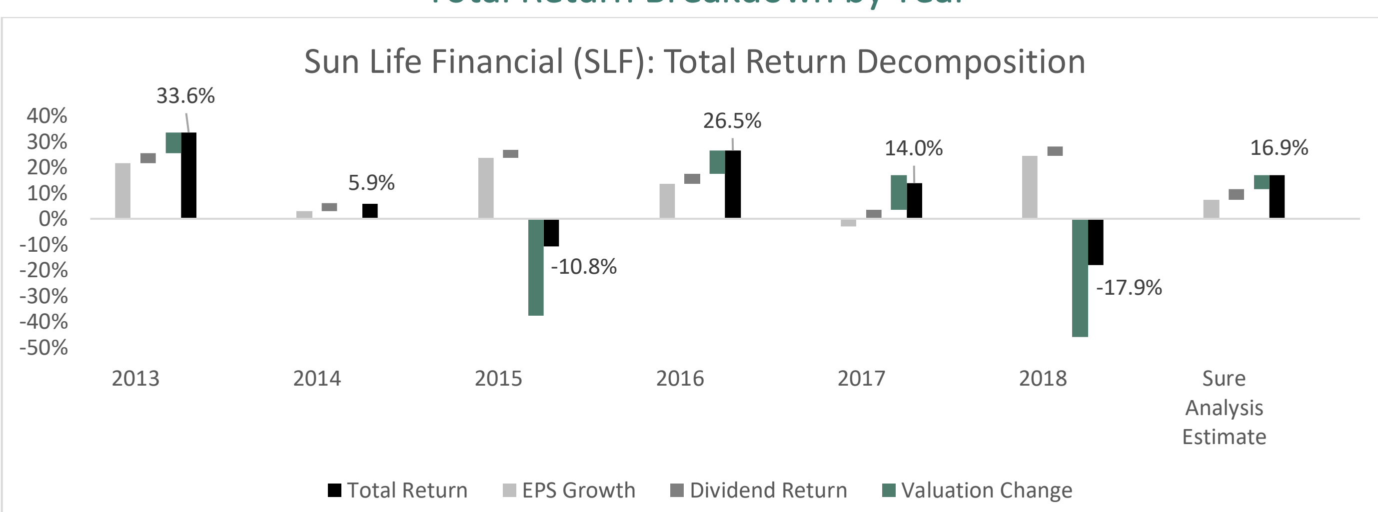
Sun Life Financial's earnings have seen some ups and downs, particularly during the last financial crisis. The company was not able to generate net profits during 2011. This has made the dividend payout ratio jump above 100% several times, but the company has not cut its dividend during those years. It is possible that Sun Life Financial cuts its dividend during a future major financial crisis, though, as earnings would likely see a major hit once again.

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 tremendously, but at least the company remained profitable, unlike many of its peers. Less severe recessions will have a smaller impact on Sun Life Financial.

Final Thoughts & Recommendation

Sun Life Financial is a financial corporation that is active in two large industries. The company has generated compelling growth rates during the last decade, and management is ambitious regarding future earnings growth as well. We are slightly more conservative, but even under our estimates Sun Life Financial would still produce compelling total returns going forward. Shares earn a buy rating at current prices, although investors should keep in mind that profits can be cyclical.

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.