Sun Life Financial Inc. (SLF)

Updated November 9th, 2019 by Jonathan Weber

Key Metrics

Current Price:	$46	**5 Year CAGR Estimate:**	10.5%	**Volatility Percentile:**	24.5%
Fair Value Price:	$47	**5 Year Growth Estimate:**	7.0%	**Momentum Percentile:**	81.3%
% Fair Value:	99%	**5 Year Valuation Multiple Estimate:**	0.2%	**Growth Percentile:**	71.5%
Dividend Yield:	3.6%	**5 Year Price Target**	$65	**Valuation Percentile:**	70.3%
Dividend Risk Score:	C	**Retirement Suitability Score:**	C	**Total Return Percentile:**	84.1%

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 $27 billion. Sun Life Financial is a Canadian company that reports its results in Canadian Dollars. The numbers in this report have been converted to US$ unless noted otherwise.

Sun Life Financial reported its third quarter earnings results on November 6. Sun Life Financial increased its insurance sales to CAD$685 million, which was 19% more than the company's insurance sales during the previous year's quarter. Wealth sales grew at an even more attractive pace, to CAD$41 billion, which was 38% more than during the previous year's quarter. This was primarily possible thanks to a strong growth rate in Sun Life Financial's Asian wealth business, which recorded a growth rate of well above 30% during the quarter. Sun Life Financial's assets under management benefited from global net inflows of CAD$3.2 billion, which was a solid result, especially versus peers, who oftentimes struggle with net outflows. Sun Life Financial completed the acquisition of BentallGreenOak during the quarter, which boosted its AuM further, and which should allow for the capturing of some synergies going forward.

Sun Life Financial generated underlying net profits of CAD$809 million, which was 11% more than the company's net profits during the previous year's quarter. Sun Life Financial's earnings-per-share totaled CAD$1.37 during the third quarter, which is equal to US$1.04, and which was up 14% year over 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	***$4.05***	***$5.68***
DPS	$1.08	$1.08	$1.08	$1.08	$1.08	$1.08	$1.13	$1.22	$1.31	$1.48	***$1.67***	***$2.45***
Shares[1]	564	574	588	590	609	613	613	613	611	602	***595***	***580***

Sun Life Financial reported compelling earnings growth between 2008 and 2018, as earnings-per-share grew by 14.4% annually in that time frame. The last financial crisis impacted Sun Life Financial considerably, as profits declined from 2007 to 2009. Unlike many of its peers, Sun Life Financial managed to remain profitable during the last financial crisis. Sun Life's earnings-per-share have grown by 11.8% annually since 2013.

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 markets such as Hong Kong and the Philippines in the future, both for its insurance business, as well as for its wealth management business. Assets under management were down in 2018, but have started to rise again in 2019. Sun Life Financial has set targets for the medium-term, 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 would still be quite attractive. We are a bit more conservative, though, as we are forecasting an earnings-per-share growth rate of 7% going forward, which would still be a very solid growth pace for a company like Sun Life Financial.

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[1] In Millions

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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	***11.4***	***11.5***
Avg. Yld.	5.0%	4.9%	5.3%	6.3%	4.5%	3.7%	3.6%	3.7%	3.6%	4.5%	***3.6%***	***3.8%***

Sun Life Financial has not traded at an overly high valuation throughout much of the last decade. More recently its valuation has expanded to a bit above 11 times this year's net profits, which is why we believe that shares are fairly valued today. Sun Life Financial's shareholders also get an above-average dividend yield of 3.6%.

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%	***41.2%***	***43.2%***

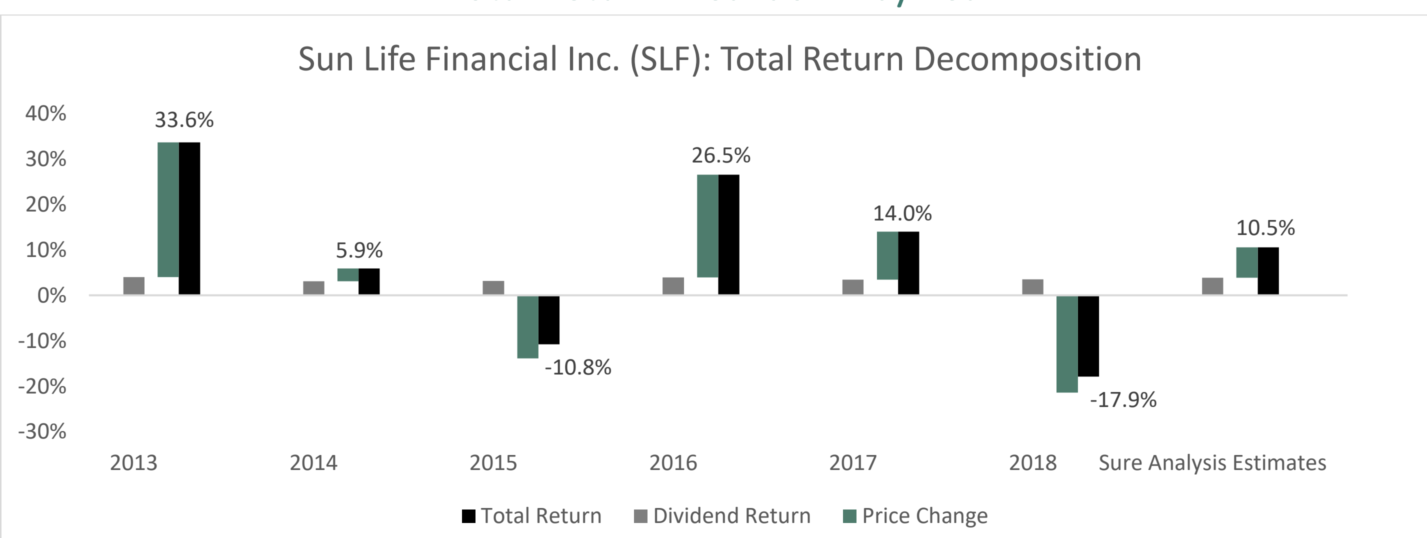
Sun Life Financial's earnings have seen some ups and downs, particularly during the last financial crisis. Indeed, the company was not able to generate net profits during 2011. This made the dividend payout ratio jump above 100% several times, but the company has not cut its payout. It is not impossible 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

Through being active in two major markets, insurance and asset management, Sun Life Financial is a somewhat diversified financial corporation. Sun Life Financial 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	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	24273	24046	20055	17564	13473	23337	15101	21576	22634	20832
SG&A Exp.	4259	3405	2658	2899	3374	3394	3256	3770	4168	4118
Net Profit	548	1461	-264	1674	1029	1697	1790	1949	1730	2019
Net Margin	2.3%	6.1%	-1.3%	9.5%	7.6%	7.3%	11.9%	9.0%	7.6%	9.7%
Free Cash Flow	3124	-989	2623	572	544	1634	3412	2671	1390	2893
Income Tax	-477	342	-153	210	275	445	469	467	233	461

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets ($B)	114	210	214	227	187	192	178	192	214	200
Cash & Equivalents		3608	4368	3473	3165	2901	4812	4968	4848	5358
Acc. Receivable	1298	1539	1382	1362	1747	1494	1374	2078	1671	1482
Goodwill & Int.	6971	5095	4728	4798	4572	4317	4414	5207	5447	5280
Total Liab. ($B)	97	194	198	210	171	176	162	175	196	182
Accounts Payable	1246	1516	2157	2067	1283	1825	1780	2032	1568	1501
Long-Term Debt	7841	6276	7274	7343	7006	6106	5701	5661	5573	4916
Total Equity	14801	14030	12872	14116	13948	14313	13687	14611	15955	15748
D/E Ratio	0.48	0.39	0.47	0.44	0.43	0.38	0.37	0.35	0.31	0.28

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	0.4%	0.9%	-0.1%	0.8%	0.5%	0.9%	1.0%	1.1%	0.9%	1.0%
Return on Equity	3.8%	10.1%	-2.0%	12.4%	7.3%	12.0%	12.8%	13.8%	11.3%	12.7%
ROIC	2.5%	6.3%	-1.2%	7.2%	4.4%	7.4%	8.2%	9.0%	7.5%	8.6%
Shares Out.	564	574	588	590	609	613	613	613	611	602
Revenue/Share	43.19	39.35	34.58	29.08	21.94	37.70	24.44	34.86	36.63	34.10
FCF/Share	5.56	-1.62	4.52	0.95	0.89	2.64	5.52	4.31	2.25	4.73

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