Sun Life Financial Inc. (SLF)

Updated May 18th, 2020 by Jonathan Weber

Key Metrics

Current Price:	$34	**5 Year CAGR Estimate:**	16.2%	**Market Cap:**	$20B
Fair Value Price:	$44	**5 Year Growth Estimate:**	7.0%	**Ex-Dividend Date:**	05/28/20
% Fair Value:	77%	**5 Year Valuation Multiple Estimate:**	5.3%	**Dividend Payment Date:**	06/31/20
Dividend Yield:	4.7%	**5 Year Price Target**	$62	**Years Of Dividend Growth:**	4
Dividend Risk Score:	B	**Retirement Suitability Score:**	B	**Last Dividend Increase:**	4.8%

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. 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 first quarter earnings results on May 5. Sun Life insurance sales totaled CAD780 million during the quarter, which was down 1% year over year. Insurance sales equated to US$580 million. Sun Life Financial's assets under management rose to CAD$1.02 trillion, up from $1.01 trillion at the end of the previous year's quarter. This was not a very large increase, but still assets under management were up, despite the equity market downturn towards the end of the first quarter. Acquisitions had a positive impact on Sun Life Financial's assets under management, though.

Sun Life Financial generated underlying net profits of CAD$1.31 on a per-share basis during the first quarter, which equates to $0.97 once translated to USD. This beat the analyst consensus estimate easily, and improves by 9% from the prior year's earnings-per-share of CAD$1.20. Sun Life Financial managed to generate an underlying return on equity of 14% during the quarter, slightly more than the 13% ROE during the previous year's quarter. The coronavirus is, so far, not having a large impact on the company's results, with one caveat being that the CAD weakened versus the USD, which has hurt results and its dividend slightly once those are translated to USD.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$2.09	---	$1.72	$2.09	$2.15	$2.66	$3.02	$2.93	$3.65	$3.88	***$4.00***	***$5.61***
DPS	$1.08	$1.08	$1.08	$1.08	$1.08	$1.13	$1.22	$1.31	$1.48	$1.60	***$1.61***	***$2.37***
Shares[1]	574	588	590	609	613	613	613	611	602	590	***580***	***560***

Sun Life Financial reported compelling earnings growth between 2008 and 2019, as earnings-per-share grew by 14% annually in that time frame. The last financial crisis impacted Sun Life Financial considerably, as profits declined between 2007 and 2009. Unlike many of its peers, Sun Life Financial still managed to remain profitable during the last financial crisis. Following the initial recovery, Sun Life's earnings-per-share have still grown by 11% 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 recovered 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 at least 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, 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. Growing from a larger base is more difficult, which is why we believe that the double-digit growth from the past will not be maintained.

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[1] In Millions

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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	10.5	---	10.0	11.4	13.7	11.7	10.8	12.5	9.0	11.9	***8.5***	***11.0***
Avg. Yld.	4.9%	5.3%	6.3%	4.5%	3.7%	3.6%	3.7%	3.6%	4.5%	3.5%	***4.7%***	***3.8%***

Sun Life Financial has not traded at an overly high valuation throughout much of the last decade. More recently its valuation has declined to less than 9 times this year's net profits, which is why we believe that shares are trading below fair value today. Sun Life Financial's shareholders also get an above-average dividend yield of close to 5%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	51.7%	---	62.8%	51.7%	50.2%	42.5%	40.4%	44.7%	40.5%	41.2%	***40.3%***	***42.2%***

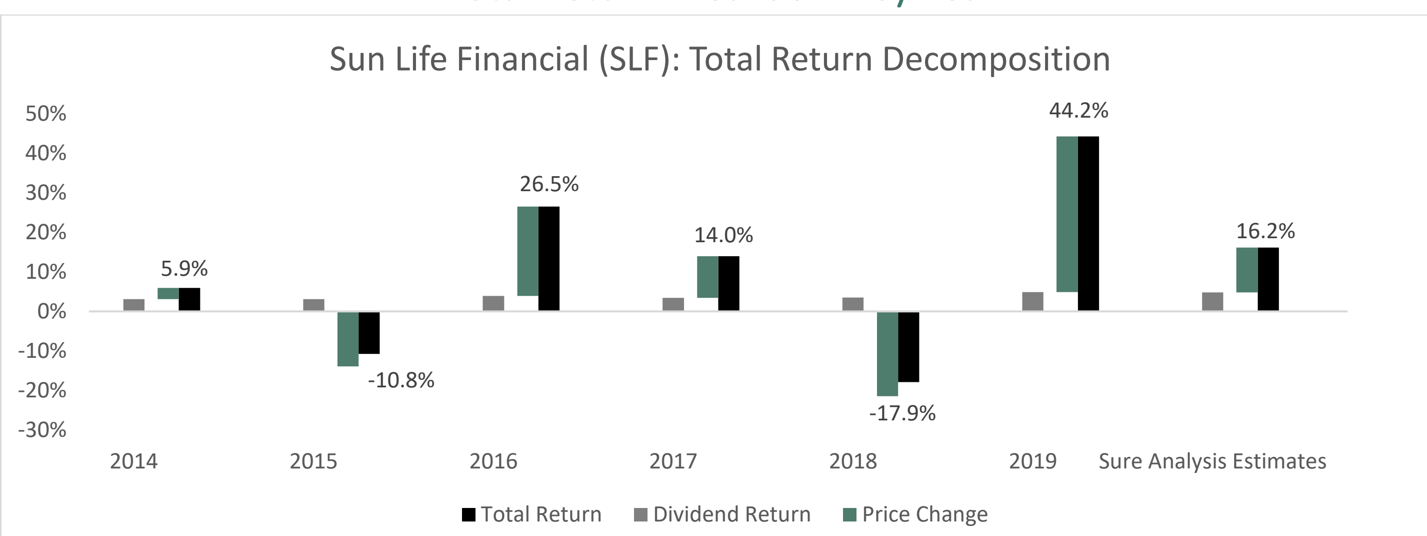
Sun Life Financial's earnings have seen some ups and downs, particularly during the last financial crisis. Indeed, the company was not able to generate net profits during 2011. This made the dividend payout ratio jump above 100% several times in the past, but the company has not cut its payout. It is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

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 at least the company remained profitable, unlike many of its peers. Less severe recessions will have a smaller impact, and so far, Sun Life is doing well during the coronavirus crisis.

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 highly compelling total returns going forward. Shares earn a buy rating at current prices, although investors should keep in mind that Sun Life's shares will likely remain volatile.

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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	24,046	20,055	17,564	13,473	23,337	15,101	21,576	22,634	20,832	29,896
SG&A Exp.	3,405	1,749	1,910	2,304	2,377	2,226	2,563	2,833	2,861	3,082
Net Profit	1,461	(257)	1,681	1,025	1,705	1,802	2,134	1,919	2,249	2,217
Net Margin	6.1%	-1.3%	9.6%	7.6%	7.3%	11.9%	9.9%	8.5%	10.8%	7.4%
Free Cash Flow	(989)	2,623	572	544	1,634	3,412	2,671	1,390	2,893	1,833
Income Tax	342	(153)	210	275	445	469	467	233	461	215

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets ($B)	210.2	213.8	227.0	187.4	192.4	177.9	191.5	214.0	199.6	227.5
Cash & Equivalents	3,608	4,368	3,473	3,165	2,901	4,812	4,968	4,848	5,358	5,141
Acc. Receivable	1,539	1,382	1,362	1,747	1,494	1,374	2,078	1,671	1,482	1,497
Goodwill & Int.	5,095	4,728	4,798	4,572	4,317	4,414	5,207	5,447	5,280	6,059
Total Liab. ($B)	194.1	198.5	210.4	171.1	176.2	162.5	175.0	195.7	181.5	208.8
Accounts Payable	1,516	2,157	2,067	1,283	1,825	1,780	2,032	1,568	1,501	1,457
Long-Term Debt	6,276	7,274	7,343	7,006	6,106	5,701	5,661	5,573	4,916	4,865
Total Equity	14,030	12,872	14,116	13,948	14,313	13,687	14,611	15,955	15,748	16,184
D/E Ratio	0.39	0.47	0.44	0.43	0.38	0.37	0.35	0.31	0.28	0.27

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	0.9%	-0.1%	0.8%	0.5%	0.9%	1.0%	1.2%	0.9%	1.1%	1.0%
Return on Equity	10.1%	-1.9%	12.5%	7.3%	12.1%	12.9%	15.1%	12.6%	14.2%	13.9%
ROIC	6.3%	-1.1%	7.2%	4.3%	7.5%	8.3%	9.8%	8.3%	9.6%	9.5%
Shares Out.	574	588	590	609	613	613	613	611	602	590
Revenue/Share	39.35	34.58	29.08	21.94	37.70	24.44	34.86	36.63	34.10	50.08
FCF/Share	(1.62)	4.52	0.95	0.89	2.64	5.52	4.31	2.25	4.73	3.07

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