Sun Life Financial Inc. (SLF)

Updated February 15th, 2022 by Jonathan Weber

Key Metrics

Current Price:	$54	**5 Year CAGR Estimate:**	11.2%	**Market Cap:**	$31B
Fair Value Price:	$56	**5 Year Growth Estimate:**	7.0%	**Ex-Dividend Date:**	03/01/22
% Fair Value:	96%	**5 Year Valuation Multiple Estimate:**	0.8%	**Dividend Payment Date:**	03/31/22
Dividend Yield:	3.8%	**5 Year Price Target**	$79	**Years Of Dividend Growth:**	7
Dividend Risk Score:	B	**Retirement Suitability Score:**	A	**Last Dividend Increase:**	20.0%

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 fourth quarter earnings results on February 9. Sun Life insurance sales totaled CAD$1610 million during the quarter, which was up 13% year over year. Sun Life Financial's assets under management rose to CAD$1.45 trillion, up from CAD$1.26 trillion at the end of the previous year's quarter. This was a sizeable increase, partially driven by the ongoing equity market rally during 2021, but it should be noted that acquisitions had a positive impact on Sun Life Financial's assets under management as well.

Sun Life Financial generated underlying net profits of CAD$1.53 on a per-share basis during the fourth quarter, which equates to $1.20 once translated to USD. This beat the analyst consensus estimate slightly and improved by 4% from the prior year's earnings-per-share of CAD$1.47. Sun Life Financial managed to generate an underlying return on equity of 15% (annualized) during the quarter, which was up from the previous year's quarter. Sun Life Financial raised its dividend by 20%, to CAD0.66, which is equal to US$2.06 annualized at current forex rates. Due to exchange rate movements over the last year, the dividend increase differs from that when nominated in USD instead of CAD.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$1.72	$2.09	$2.15	$2.66	$3.02	$2.93	$3.65	$3.88	$4.32	$4.83	***$5.10***	***$7.15***
DPS	$1.08	$1.08	$1.08	$1.13	$1.22	$1.31	$1.48	$1.60	$1.65	$1.85	***$2.06***	***$3.03***
Shares[1]	590	609	613	613	613	611	602	590	585	585	***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. 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 slightly 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 in future years.

[1] In Millions

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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	10.0	11.4	13.7	11.7	10.8	12.5	9.0	11.9	10.2	11.6	***10.6***	***11.0***
Avg. Yld.	6.3%	4.5%	3.7%	3.6%	3.7%	3.6%	4.5%	3.5%	3.8%	3.3%	***3.8%***	***3.8%***

Sun Life Financial has not traded at an overly high valuation throughout much of the last decade. At a little less than 11 times this year's expected net earnings, shares are trading slightly below our target of 11 times its net earnings. We believe that this would represent fair value and thus see some marginal multiple expansion tailwinds going forward.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	62.8%	51.7%	50.2%	42.5%	40.4%	44.7%	40.5%	41.2%	38.4%	38.3%	***40.4%***	***42.3%***

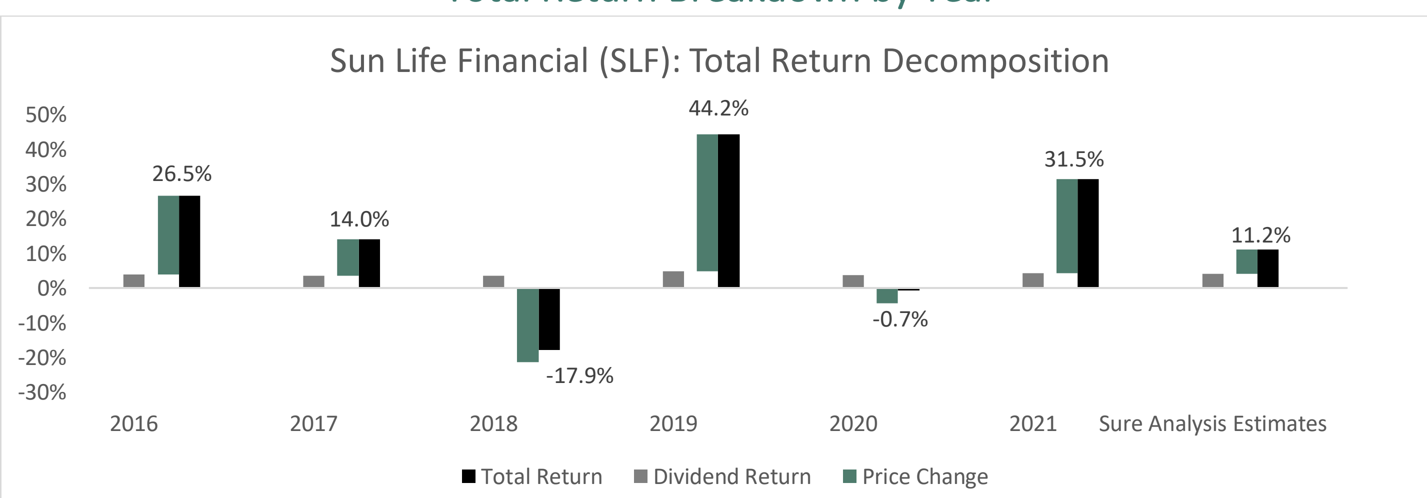
Sun Life Financial's earnings have seen some ups and downs, particularly during the last financial crisis. The company was not able to generate net profits during 2011. This made the dividend payout ratio jump above 100% several times in the past, but the company has not cut its payout. It is not impossible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

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, and so far, Sun Life is doing quite well during the coronavirus crisis.

Final Thoughts & Recommendation

Through being active in two independent businesses, insurance and asset management, Sun Life Financial is a relatively 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 more conservative, but even under our estimates, Sun Life Financial would still generate attractive total returns going forward. Shares earn a buy rating at current prices, as the total return outlook is positive while Sun Life Financial trades marginally below fair value.

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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	17,564	13,473	23,337	15,101	21,576	22,634	20,832	29,896	32,396	28,519
SG&A Exp.	1,910	2,304	2,377	2,226	2,563	2,833	2,861		3,318	4,069
Net Profit	1,681	1,025	1,705	1,802	2,134	1,919	2,249	2,217	2,076	3,486
Net Margin	9.6%	7.6%	7.3%	11.9%	9.9%	8.5%	10.8%	7.4%	6.4%	12.2%
Free Cash Flow	572	544	1,634	3,412	2,671	1,390	2,893	1,778	5,295	(1,546)
Income Tax	210	275	445	469	467	233	461	215	369	580

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets ($B)	227	187	192	178	192	214	200	228	253	271
Cash & Equivalents	3,473	3,165	2,901	4,812	4,968	4,848	5,358	5,141	8,355	6,138
Acc. Receivable	1,362	1,747	1,494	1,374	2,078	1,671	1,482	1,497	1,421	1,780
Goodwill & Int.	4,798	4,572	4,317	4,414	5,207	5,447	5,280	6,059	6,704	7,754
Total Liab. ($B)	210	171	176	162	175	196	182	209	233	249
Accounts Payable	2,067	1,283	1,825	1,780	2,032	1,568	1,501	1,401	1,912	1,464
Long-Term Debt	7,343	7,006	6,106	5,701	5,661	5,573	4,916	4,921	4,726	7,339
Total Equity	14,116	13,948	14,313	13,687	14,611	15,955	15,748	16,184	17,419	18,882
LTD/E Ratio	0.44	0.43	0.38	0.37	0.35	0.31	0.28	0.27	0.25	0.36

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	0.8%	0.5%	0.9%	1.0%	1.2%	0.9%	1.1%	1.0%	0.9%	1.3%
Return on Equity	12.5%	7.3%	12.1%	12.9%	15.1%	12.6%	14.2%	13.9%	12.4%	19.2%
ROIC	7.2%	4.3%	7.5%	8.3%	9.8%	8.3%	9.6%	9.5%	8.5%	12.8%
Shares Out.	590	609	613	613	613	611	602	590	585	585
Revenue/Share	29.08	21.94	37.70	24.44	34.86	36.63	34.10	50.86	55.00	48.34
FCF/Share	0.95	0.89	2.64	5.52	4.31	2.25	4.73	3.02	8.99	(2.62)

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