Sun Life Financial Inc. (SLF)

Updated August 20th, 2024 by Jonathan Weber

Key Metrics

Current Price:	$52	**5 Year CAGR Estimate:**	11.3%	**Market Cap:**	$30B
Fair Value Price:	$53	**5 Year Growth Estimate:**	7.0%	**Ex-Dividend Date:**	08/28/24
% Fair Value:	98%	**5 Year Valuation Multiple Estimate:**	0.3%	**Dividend Payment Date:**	09/27/24
Dividend Yield:	4.5%	**5 Year Price Target**	$74	**Years Of Dividend Growth:**	11
Dividend Risk Score:	D	**Retirement Suitability Score:**	C	**Rating:**	Buy

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 second quarter earnings results on August 12. Sun Life insurance sales between the Group and Individual franchises totaled CAD$1.25 billion during the quarter, which was up year over year. Sun Life Financial's assets under management rose to CAD$1.47 trillion, up from CAD$1.37 trillion one year earlier. This increase can be explained by the market upturn that the world has experienced over that time frame, thus the AuM increase was not a surprise and Sun Life's peers mostly experienced the same.

Sun Life Financial generated underlying net profits of CAD$1.72 on a per-share basis during the second quarter, which equates to $1.26 once translated to USD. This earnings-per-share result was up 10% from the prior year's second-quarter result. Sun Life Financial managed to generate an underlying return on equity of 18.0% (annualized) during the quarter, which was up slightly compared to the previous quarter. Sun Life Financial is forecasted to see its earnings-per-share increase this year. Sun Life Financial recently raised its dividend by 4%, to CAD0.81, continuing its decade-plus dividend growth track record (in Canadian Dollars).

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$2.15	$2.66	$3.02	$2.93	$3.65	$3.88	$4.32	$4.83	$4.54	$4.69	***$4.80***	***$6.73***
DPS	$1.08	$1.13	$1.22	$1.31	$1.48	$1.60	$1.65	$1.85	$2.11	$2.17	***$2.36***	***$3.47***
Shares[1]	613	613	613	611	602	590	585	585	586	586	***585***	***570***

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.

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[1] In Millions

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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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	13.7	11.7	10.8	12.5	9.0	11.9	10.2	11.6	10.1	11.1	***10.8***	***11.0***
Avg. Yld.	3.7%	3.6%	3.7%	3.6%	4.5%	3.5%	3.8%	3.3%	4.6%	4.2%	***4.6%***	***4.7%***

Sun Life Financial has not traded at a high valuation throughout much of the last decade. At just below 11 times this year's expected net earnings, shares are trading marginally below our fair value estimate. We believe that the company's earnings multiple will increase slightly in the coming years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	50.2%	42.5%	40.4%	44.7%	40.5%	41.2%	38.4%	38.3%	46.5%	46.3%	***49.2%***	***51.5%***

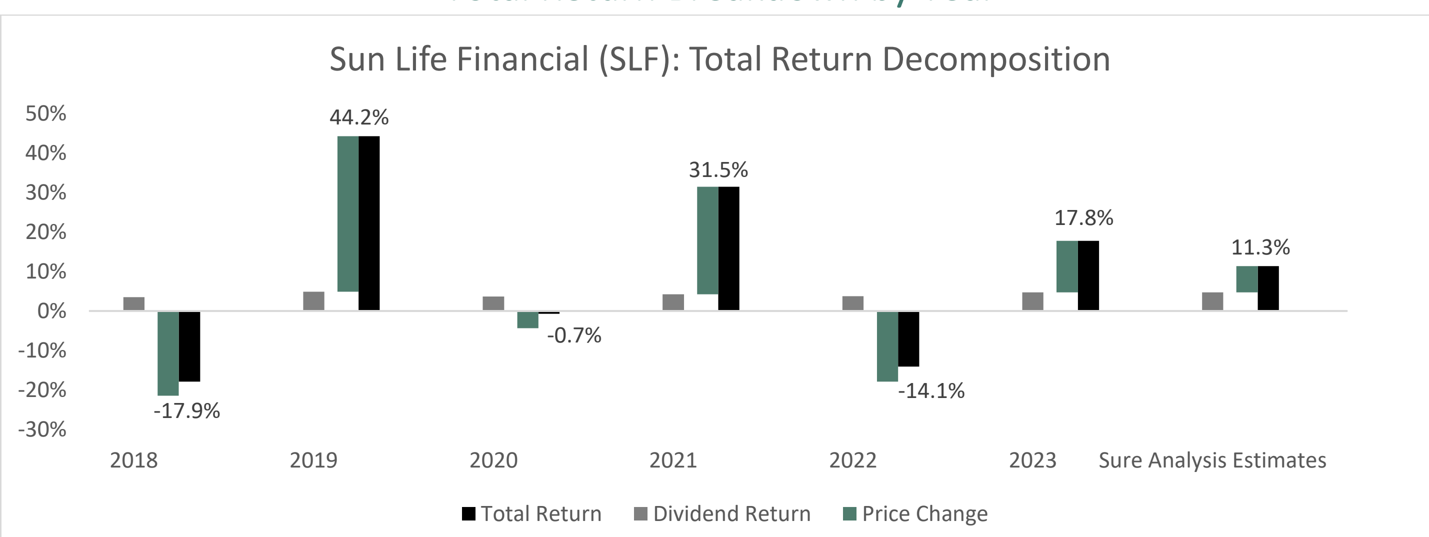
Sun Life Financial's earnings have seen some ups and downs, particularly during the last financial crisis. The company was unprofitable for a while during that period, but recovered following the crisis. This made the dividend payout ratio jump above 100% during the Great Recession, but the company has 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. We note dividend safety has improved greatly over the last decade, as the payout ratio has declined to around 50%.

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.

Final Thoughts & Recommendation

Sun Life Financial is active in two different segments of the financial industry, insurance and asset management, which results in solid diversification that helps during downturns in one of these markets. 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 compelling.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	23,337	15,101	21,576	22,634	20,832	29,896	32,345	28,467	(3,179)	24,185
SG&A Exp.	2,377	2,226	2,563	2,833	2,861		3,318	4,069		
Net Profit	1,705	1,802	2,134	1,919	2,249	2,217	2,076	3,486	2,324	2,476
Net Margin	7.3%	11.9%	9.9%	8.5%	10.8%	7.4%	6.4%	12.2%	-73.1%	10.2%
Free Cash Flow	1,634	3,412	2,671	1,390	2,893	1,778	5,295	(1,546)	3,314	4,029
Income Tax	445	469	467	233	461	215	369	580	420	341

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets ($B)	192	178	192	214	200	228	253	274	238	251
Cash & Equivalents	2,901	4,812	4,968	4,848	5,358	5,141	8,355	9,630	6,910	8,420
Acc. Receivable	1,494	1,374	2,078	1,671	1,482	1,497	1,421		1,765	1,820
Goodwill & Int.	4,317	4,414	5,207	5,447	5,280	6,059	6,704	7,754	9,895	10,661
Total Liab. ($B)	176	162	175	196	182	209	233	256	222	233
Accounts Payable	1,825	1,780	2,032	1,568	1,501	1,401	1,912		1,734	1,879
Long-Term Debt	6,106	5,701	5,661	5,573	4,916	4,921	4,726	5,196	9,166	9,263
Total Equity	14,313	13,687	14,611	15,955	15,748	16,184	17,419	17,221	14,950	16,089
LTD/E Ratio	0.38	0.37	0.35	0.31	0.28	0.27	0.25	0.30	0.55	0.52

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	0.9%	1.0%	1.2%	0.9%	1.1%	1.0%	0.9%	1.3%	0.9%	1.0%
Return on Equity	10.5%	11.4%	13.3%	11.0%	12.4%	12.1%	10.6%	18.5%	13.6%	14.1%
ROIC	7.5%	8.3%	9.8%	8.3%	9.6%	9.5%	8.5%	14.6%	9.6%	9.2%
Shares Out.	613	613	613	611	602	590	585	585	586	586
Revenue/Share	37.70	24.44	34.86	36.63	34.10	50.86	54.91	48.25	(5.40)	41.06
FCF/Share	2.64	5.52	4.31	2.25	4.73	3.02	8.99	(2.62)	5.63	6.84

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