Don’t Miss Out on This $1.2 Trillion Investment Opportunity

Description

Unless I happen to stumble upon the Fountain of Youth while walking in the woods, I think we’re all going to have to deal with getting older.

While getting older for me mostly consists of a few grey hairs and feeling a little less spry after playing sports, it’s a real problem for Canada’s 9.6 million baby boomers. The first trickle of boomers have already turned 65, and the rest of their generation’s retirement is about to hit the rest of us like a tsunami.

Retiring baby boomers will affect every industry in Canada. They will affect how we shop, choosing to frequent smaller stores as walking becomes difficult. They will affect the real estate market, as they unlock value from their houses by downsizing. And they even have the potential to affect stock markets as they switch their asset allocations from stocks to bonds.

But most of all, retiring baby boomers will tax our healthcare system. They’ll need medicine and surgical procedures. They’ll need MRI machines and rehab clinics. But retiring baby boomers will especially need long-term care. Analysis suggests the upcoming market for long term care is going to be huge.

Like, really huge — $1.2 trillion huge.

And that’s just in Canada.

How can investors play this upcoming trend, besides heading back to school to become a medical professional? Let’s take a look at a few continuing care companies, REITs that pay investors nice dividends until this glut of boomers are ready for additional care.

Extendicare

Extendicare (TSX: EXE) is a former REIT, changing structures to become a corporation in 2012. The company currently operates 88 facilities in Canada and 158 in the United States. The company’s business is split between operating long-term care facilities, providing in-home care for seniors, and operating rehab clinics. All of these businesses will be in demand as the population ages.

The company stumbled in 2013, and had to slash its monthly dividend from 7 cents to 4. The stock sold off on the news, falling from more than $8 per share all the way down to $6. It's recovered a bit back up to $6.85. The company reported funds from operations were 77 cents per share in 2013, easily covering the smaller dividend and giving the company wiggle room to pay down a little extra debt.

That debt is a concern, as Extendicare owes more than $1.16 billion. This has barely budged over the past few years, as the company focused on maintaining its dividend. It also invested heavily in increasing the star rating of its U.S. properties, which should pay off in the long term.

Chartwell Retirement Residences

Canada's largest operator of long-term care facilities is **Chartwell Retirement Residences** (TSX: CSN.UN), which owns, leases, or manages more than 32,000 suites in Canada and the United States. Approximately 80% of the company's revenue comes from Canada, leaving it less exposed to currency risk.

Like Extendicare, Chartwell's management has cut the dividend in the past, once in 2007 and again in 2008. Things have run smoothly since then, as the company has paid the 4.5 cent monthly distribution without a hitch. The current yield is 5.2%, and is easily supported by funds from operations.

Chartwell has actually experienced a slight decline in its occupancy rate in Ontario, its largest market. This is because additional competition has come to market, hoping to capitalize on the aging population trend. This short-term blip should be of little concern to long-term investors.

NorthWest Healthcare REIT

NorthWest Healthcare REIT (TSX: NWH.UN) is a little different than Extendicare or Chartwell. It owns medical office buildings and health-care related property in Canada.

Unlike the others, it has paid a steady dividend since it started trading in 2010, and currently yields more than 8.2%. The stock is trading at the lowest levels of its short history as a public company, at just 8x trailing earnings. It's been affected by fears of increasing interest rates, which have caused most REITs to suffer.

The company also trades at a 37% discount to book value, and has a fairly conservative balance sheet. This is even after expanding operations considerably in 2012. NorthWest is nicely positioned going forward.

Foolish bottom line

Aging baby boomers are going to be a great business over the next 30 years. Most children simply don't have the time or the patience to care for aging parents, which is good for the businesses that do take care of them. This trend will continue to play out for decades. Investors should take their positions now and hold for the long term.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:EXE (Extendicare Inc.)
2. TSX:NWH.UN (NorthWest Healthcare Properties Real Estate Investment Trust)

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