This Real Estate Stock Should Be in Every Investor's Portfolio

Description

Chartwell Seniors Housing REIT (TSX: CSH.UN) reported first quarter 2014 results last week. The company reported a net loss due largely to higher G&A expenses due to $1.1 million in severance costs related to restructuring, as well as increased investments in technology and online presence.

In fact, G&A expense was significantly higher, at 4.2% of revenue this quarter, compared to 3.6% of revenue last quarter. But this was a one-time event and expenses are expected to normalize in the coming quarters. On the bright side, funds from operations was more than 8% higher, reflecting pricing increases and higher revenue from ancillary services.

Here's why Chartwell should reward its investors over the long-term.

Strong dividend yield

Chartwell's dividend yield is an attractive 5.1%. In an environment of low interest rates, this will support the stock as investors are hungry for yield. Just as importantly, the dividend is sustainable, as the company's payout ratio (distributions as a percentage of adjusted funds from operations) is 78.8%. This compares to a payout ratio of 84.8% in the same period last year.

Strong industry fundamentals

It is no secret that in North America, the biggest demographic trend at work today is the aging population. This has already shifted dollars away from certain industries and toward others, and will continue to do so. In fact, this shift will accelerate in the years to come as this demographic trend increasingly takes hold.

As an investor, I want to be positioned in those companies that will benefit from this shift — those companies that will see a natural uptick in demand for their products and/or services for the simple fact that they are in the right business that caters to this aging population.

Occupancy rates are high and expected to rise

Although the company has recently struggled with weaker occupancy rates, in the coming years demand is expected to increase more than the new supply of retirement homes. Currently, occupancy levels are just under 90% with the potential to increase a few percentage points as demand increases. The leverage to increases in occupancy rates is very significant.

Expanding sources of revenue

Chartwell is working hard at expanding its sources of revenue by introducing additional care and ancillary services, such as dental, foot care, and physio services. Furthermore, the company's investments in recruitment and training of its sales force should translate into additional revenue.

Balance sheet is strengthening

Chartwell has been working on refinancing its debt portfolio and has already lowered interest costs. Recently, the company sold 14 non-core properties in Ontario for $66 million, which will help to further strengthen the balance sheet. Cash on hand at the end of the first quarter was $4.7 million with borrowing room on credit facilities at $29.8 million.

Acquisitions on the horizon

On the first quarter conference call, management stated that they are evaluating acquisition opportunities in Canada. Specifically, there are currently a number of one-off properties in Ontario that the company is looking at. Chartwell is currently experiencing strong occupancy rates in Ontario, specifically in long-term care, which achieved 98.4% occupancy rates in the first quarter, a seven basis point improvement over the first quarter of 2013.

Furthermore, the company commented on the fact that there is a slower pace of new supply of retirement homes in Ontario so that should support increasing occupancy rates there, which currently stand at just under 88%.

Chartwell is in the right business for the foreseeable future. All this company has to do is not mess up and it will thrive. Given the new initiatives in driving revenue growth through increases in rents and more services, potential acquisitions to strengthen its portfolio, divestitures to get rid of non-core properties, and initiatives the company is taking to strengthen its balance sheet, my money is on Chartwell to thrive.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:CSH.UN (Chartwell Retirement Residences)

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