A Dividend-Payer You Can Count On

Description

After **Canadian Oil Sands Ltd.** (TSX: COS) cut its dividend by 43% last week, investors are surely looking for companies to turn to with dividends they can rely on. Companies like **Chartwell Senior Housing REIT** (TSX: CSH.UN), which is benefiting from positive macro fundamentals in its industry as well as improving company specific fundamentals to make it a good place to turn to for a stable and reliable dividend.

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

Strong dividend yield

Chartwell's dividend yield is an attractive 4.64%. In an environment of low interest rates and at a time when investors are questioning the sustainability of dividends from companies within the energy sector, the stock will have support, as investors are still hungry for yield. The dividend is sustainable, as the company's payout ratio (distributions as a percentage of adjusted funds from operations) is 67.5%. This compares to a payout ratio of 72.2% 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. In the third quarter, occupancy levels were 90.2%, compared to 89.9% in the same quarter last year, with the potential to increase a few percentage points as demand increases. In fact, management fully expects occupancy levels to creep higher toward historical levels of 93%. 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 third quarter was $14.3 million (up from earlier this year) with borrowing room on credit facilities at $77.6 million. Interest coverage in the third quarter was 2.4 times versus 2.3 times in the same quarter last year.

More acquisitions on the horizon

Management is evaluating acquisition opportunities in Canada. In fact, during the quarter, the company acquired 2 retirement residences in Quebec as well as a medical office building. Chartwell continues to experience strong occupancy rates in Canada, specifically in long-term care, which achieved 98.8% occupancy rates in the third quarter. Furthermore, the company has 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 89%.

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Chartwell is in the right business for the foreseeable future. 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 and so I believe that it is a good place for investors to go for a safe and healthy dividend yield.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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

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