Will You Miss Out on This Trillion Dollar Opportunity?

Description

Canada's aging population will pose a unique challenge.

There are more than nine million baby boomers in Canada. More than a quarter of our country's population was born between the years 1946 and 1964. The older baby boomers have reached retirement age, while the younger members of the generation are going to start retiring en masse over the next decade.

Anybody under 40 should be excited about this trend. Not only will millions of well-paid employees be leaving cushy jobs–leaving plenty of opportunity for advancement for remaining workers–but they'll also collectively be prepared to drop billions upon billions of dollars on everything from their health to financially supporting children and grandchildren.

This is hardly a new phenomenon. Investors have been salivating about the investment opportunity presented by this trend for decades now. We're now finally getting close to the point where millions of baby boomers will start using health care in a pretty major way.

In fact, according to studies, the health needs of retiring baby boomers alone will be worth some $1.4 trillion over the next 20-30 years in Canada alone. This spending will be spread out over such sectors as pharmaceuticals, assisted living, and nursing, among others.

Here's how investors can position themselves to pocket even just a small portion of that via capital gains and dividends.

Pharmaceuticals

One thing strikes me about the average baby boomer today–they take a lot of pills.

The nice thing about drugs is they're a recurring revenue stream. Each month the average seniorheads down to the drug store to load back up on pills that do everything from lowering blood pressureto taking away pain. These aren't the kinds of pharmaceuticals you take for a while and then quit. Mostseniors will take these drugs for the rest of their lives.

This is good news for the companies that make these pills, but I think it's even better for the companies that disperse them. A cost-conscious consumer will try a generic pill without a second thought, especially if a pharmacist says it's the same. But most customers tend to stick with their pharmacist. After all, a good pharmacist gets to know a patient's medical history.

This is good news for **Loblaw Companies Limited** (TSX:L). Between its namesake grocery stores–which nearly all have pharmacies in them–and its newly acquired Shoppers Drug Mart chain, the company has become Canada's leading pharmacist with more than 2,000 locations from coast to coast.

The nice thing about Shoppers Drug Mart stores for seniors is the compact size. Many choose to load up on staples while at the drug store because they don't have to walk nearly as far compared to a full-sized supermarket.

Nursing

There's a lot to like about **Extendicare Inc.** (TSX:EXE), one of Canada's largest owners and operators of assisted-living facilities. The company owns more than 110 centres located primarily in Ontario and Alberta.

Extendicare has made a number of smart moves lately. It exited the U.S. market, pocketing $240 million after paying taxes and taking care of mortgages. This money will be used to buy back shares and expand the company's footprint in Canada.

Perhaps the more interesting reason to own Extendicare is the company's dominant position in the home health care market. Many cash-strapped seniors can't afford to move into expensive retirement communities. Countless others don't want to leave their own homes. And with public finances already stretched, governments don't want seniors moving into assisted-living homes until they have to.

Extendicare is well positioned to cash in on this upcoming trend. It bolstered its already robust home health business by acquiring Paramed, Ontario's largest home health provider, for $83 million. Paramed is expected to add $0.10 per share in adjusted funds from operations annually.

Finally, Extendicare offers a nice dividend; shares currently yield 5.5%. There's also the potential for the payout to go up as the company continues to invest the proceeds from the sale of the U.S. operations, which should increase earnings.

Extendicare and Loblaw are positioned to do quite well over the next 20-30 years. Today is a great time to pick up shares before the rest of the market figures it out.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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2. TSX:L (Loblaw Companies Limited)

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nelsonpsmith