



Swimming With the Tide Can Make You Rich!

Description

A swimmer's dream is to swim in the same direction as a strong tide. The investor's dream is really no different. Wanting to find a security which would be helped by a rising tide, we find companies **Sienna Senior Living Inc.** ([TSX:SIA](#)) and **Extendicare Inc.** ([TSX:EXE](#)).

Both companies are in the business of running retirement residences, providing living facilities and long-term care facilities to senior citizens needing these kinds of accommodations. Arguably, these investments are even better than apartment REITs. Starting in year 2021, the first of the baby boomers (born between 1946 and 1964) will begin turning 75 with many more to follow. For those in need, the best option will be to move into a retirement home or a long-term care centre.

Looking at how well these companies have operated in the past five years, the reality is that they're only operating on a small scale in comparison to what they can be down the road. Once the baby boomers get to their sweet spots (ages 75 and older), these companies will be even better cash cows than they are today.

Sienna initiated a dividend in 2014 and currently yields approximately 5.85%, while Extendicare has paid a dividend since 2012 and currently yields approximately 5.30%. Although the price returns have been similar since they've both been paying dividends, the future may look a little brighter for one company more than the other.

Looking first at Sienna, the distributions for 2015 and 2014 accounted for 66% and 67% of adjusted funds from operations (AFFO), respectively. AFFO is a metric used to determine how much money is available for distribution to unitholders. For 2016, the payout was approximately 62% for the first half of the year.

In the case of Extendicare, the distributions as a percentage of AFFO are 83% for 2015, 57% for 2014, and 67% for 2016 after the first two quarters of the year.

Clearly, with a lower payout ratio, there will be more money left over to grow the business: advantage Sienna. Although both companies will enjoy the rising tide, the dividend yield is higher at Sienna and the payout ratio is lower.

For investors seeking cash flow-rich, defensive investments, it seems we have some winners. Looking beyond the straight financials, the reality is very simple: no one wants to move, especially not an 80-year-old in declining health. Should the price of inputs increase, the long-term care providers will be in an excellent position to pass on the costs to the consumer.

The cherry on the cake is the sticky-revenue model of this business. Without having seen an increase in the dividend in quite some time, it may be due. We'll have to watch and see.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:EXE (Extendicare Inc.)

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