Invest in the Healthcare Industry to Take Advantage of Demographic Trends

Description

The TSX healthcare index has declined 35% over the latest one-year period. While **Valeant Pharmaceuticals Intl Inc.** (TSX:VRX)(NYSE:VRX) skewed the performance of the index, so it peaked in 2015 and came crashing down thereafter, performance for the other names in the index. **Chartwell Retirement Residences** (TSX:CSH.UN) had a one-year total return of over 10%, and **Extendicare Inc.** (TSX:EXE) had a one-year return of 23.4%.

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So, where do investors go to get exposure to the healthcare industry? Should they favour yield or potential capital appreciation? Well, the answer is both.

Chartwell remains a very attractive name. Currently yielding 3.53%, the company has not only provided a healthy yield over the last few years, but it has also provided investors with capital appreciation in the form of a rising stock price. The stock has a three-year return of 52.3%. It has been a great way for investors to benefit from the aging population, and with the growth in occupancy levels the company is expecting, we can reasonably assume that this will continue.

Currently, Chartwell is seeing a 93% occupancy rate, which is below last year's levels, but it is still above levels seen recently of below 90%. And, in fact, management has stated that they expect occupancy rates to trend higher, as the Ontario market is seeing weakness that should subside. As a reminder, the company's leverage to increases in occupancy rates is very significant.

Further to this, Chartwell has been working hard to expand its sources of revenue by introducing additional care and ancillary services, such as dental, foot care, and physio services.

Chartwell has increased its dividend payment annually in the last couple of years. And with funds from operations of $0.20 per share in the latest quarter versus distributions of $0.14 per share, the company has room to institute further increases going forward.

Extendicare is another stock that has done well in the last year with a 20% return and a dividend yield of 4.7%. The company is a leading provider of long-term care in Canada, and this business is completely unaffected by the economy, because the aging population need to be in its facilities.

Strong demand, limited investment, and growth in supply means that there is a long wait list for long-term care. A big portion of Extendicare's revenue is comprised of revenue from the Ministry of Health and Long-Term Care, which means two things: it is pretty stable, and the room for increases is limited.

CATEGORY

1. Dividend Stocks
2. Investing

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1. NYSE:BHC (Bausch Health Companies Inc.)
2. TSX:BHC (Bausch Health Companies Inc.)
3. TSX:CSH.UN (Chartwell Retirement Residences)
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