New Data Screams “Buy This Small-Cap Stock!”

Description

Two pieces of news came across my desk recently that highlighted the reasons investors ought to give serious consideration to **Sienna Senior Living Inc.** (TSX:SIA), the largest operator of long-term care facilities in Ontario with 5,733 beds spread across 35 facilities.

Why Sienna?

Well, let me first explain the two pieces of news that make a compelling case for owning its stock.

Manulife gets out

Rob Carrick reported in his personal finance column October 19 that **Manulife Financial Corp.** (TSX:MFC)(NYSE:MFC) is getting out of the long-term care insurance business in Canada. In a recent email to Carrick, the insurer notified him that as of November 30, 2017, at precisely 5:00 p.m., you will not be able to buy a new LTC policy from the company, even if you beg.

Manulife blames two things.

First, privacy rules make it extremely difficult to underwrite new policies effectively. Translation: if they can’t access your medical files and order tests to determine the risk attached to writing that policy, it makes it more difficult to price and, more importantly, profit.

Second, Canadians just haven’t bought into long-term care insurance the way Americans have, though even the market in the U.S. is no walk in the park. The Conference for Advanced Life Underwriting (CALU) estimates that in 2015, 350,000 Canadians were paying $116 million in annual LTC premiums. By comparison, Canadians paid $18.5 billion in 2015 on life insurance premiums, both group and individual.

It’s funny that Canadians pay some of the highest fees in the world when it comes to mutual funds and financial advice, yet we’re cheapskates when it comes to providing for our future care and living accommodations. I guess we think the kids will take care of us when we can’t.

The wrong people occupying hospital beds

A new report by Health Care Ontario suggests that in 2015-2016, almost 4,000 beds per day were occupied by elderly Ontarians waiting for some non-life-threatening care, whether it be in a long-term or rehabilitation care facility or the home. That's the equivalent of 10 large hospitals.

Simply put, while long-term care gets good reviews in Ontario, the 79,000 beds available aren't enough.

Carrick's article finished with a good point from Toronto financial planner Rona Birenbaum, who says many people will self-insure by diverting money that at one time would have gone to travel and entertainment expenses to the cost of long-term care.

By hook or by crook, the company is going to get paid.

Sienna's edge

Since the company's IPO in 2010, it's gone from 4,423 beds to 8,459 today. Over those seven years, the number of private-pay beds (not funded by government) has increased from 1.8% to 21% of its total.

Why does that matter?

Retirement homes and independent-living facilities are generally private-pay and more profitable than long-term care residences. However, just because retirement residences are more profitable than LTC facilities, it doesn't mean Sienna ought to get out of the market entirely because any prospect for a retirement home likely wants to see a continuum of care that allows, where possible, to remain in the same building or provider of care.

Sienna continues to grow its pipeline of retirement residences through acquisitions to better position it in the marketplace.

On October 16, Sienna announced that it had acquired two luxury retirement residences in Barrie and Kingston adding 384 private-pay suites, both of which provide age-in-place care, as I mentioned earlier. Paying $164 million for the two homes, which are accretive to earnings, these two properties, along with two others already acquired, account for 33% of the company's net operating income.

While Sienna has been in business for 45 years, it's only been a public company for seven. The acquisitions of the two Ontario properties position it for further growth.

Up 13% year to date through October 20, Sienna's stock has had only one year out of seven as a public company with a negative annual return; that was less than 2% in 2013. With a 5% yield, it's likely to double the TSX over the next seven years as it has the past seven.

The demand for Sienna's product isn't going away anytime soon, and that's always a good thing.

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