



Better Buy: Chartwell Retirement Residences vs. Sienna Senior Living Inc.

Description

There is [significant growth potential](#) in the seniors' residence real estate portion of the Canadian economy. Income investors would be wise to consider making plays in some of the well-managed and aggressively expanding operators in this space, which include **Sienna Senior Living Inc.** ([TSX:SIA](#)) and **Chartwell Retirement Residences** ([TSX:CSH.UN](#)).

Let's take a look at which one could be a favourite pick today.

Chartwell Retirement Residences

Chartwell is the largest owner and operator of seniors' residences in Canada with 208 properties under its management, comprised of 30,685 suites.

The trust offers a monthly distribution of \$0.049, which yields 3.87% on a forward-looking basis. Chartwell has increased the payout at an average rate of 2% each year for four consecutive years.

Same-property net operating income (NOI) has increased steadily over the past three years. NOI increased by 6.6% year on year in 2016 and by 4.3% in 2017.

Chartwell's debt ratio, at 45%, is manageable, and there are not very significant debt maturities until 2023, when the trust's unsecured debentures are due to mature, and they could easily be refinanced, as Chartwell has a good investment-grade credit rating. The trust's interest coverage ratio is good at 3.5 times.

The trust is very active in the acquisitions space and has robust development programs with five properties currently under development and four planned projects on course. It intends to acquire 2,784 more suites this year.

I like Chartwell's property acquisition and disposal strategy. The trust has a serious intention to reduce the average age of properties in its portfolio. Since 2013, the average age of suites acquired or developed stands at a youthful 7.2 years, and the average age of suites sold is at 25 years.

A youthful property portfolio may easily attract higher rental rates, has more client appeal and, most noteworthy, a younger real estate portfolio has generally lower potential renovation and maintenance costs and could elevate the net asset value of the equity units, all things equal.

Sienna Senior Living

Sienna is a growing seniors' living real estate operating company that owns and manages 85 properties, comprising of 11,756 beds/suites in Canada.

The operator's portfolio had an average occupancy rate of 93.8% at the end of 2017, and occupancy levels have been increasing sequentially for five consecutive years at an average rate of 15.6% since 2013.

Sienna offers its investors a monthly distribution of \$0.075 a unit, which has stayed flat over the last five years. The distribution looks very sustainable at a 60.7% AFFO payout rate in 2017.

There could be a small worry about a growing debt ratio that modestly increased to about 52% recently after the company borrowed more to help finance the [acquisition](#) of 10 high-quality properties in Ontario in the first quarter of 2018. However, management is very confident that all is under control. There are no significant debt maturities for Sienna until 2021.

Sienna had a good interest coverage ratio of 3.7 times in 2017 and enjoys a very good "A Low" investment-grade debt rating from DBRS — much higher than Chartwell's "BBB Low" rating.

The company has a very vibrant development pipeline in 2018 going forward, and management is confident they will continue growing the portfolio's NOI, which increased by 20% between 2016 and 2017.

Which one is a better buy now?

Sienna offers a better distribution yield right now, but it has a higher interest rate risk exposure than Chartwell due to its higher debt ratio in a rising interest rate environment.

On a more technical comparative analysis, Chartwell compares a bit poorly to Sienna. The trust's units are relatively as volatile as the broader market, with a beta of 0.45 against Sienna's 0.15. The maximum loss ever recorded from peak valuation on Sienna units is a modest 20.7%, while the comparative maximum drawdown on Chartwell units stands at 79.54%. In this regard, if the past could repeat itself, investors in Chartwell may lose a bit more than those in Sienna units, but that's only on a probability basis.

Year to date, Sienna units are down 1.87% on the market, and Chartwell's units are trading 6.64% lower than their trading range at the beginning of the year. Chartwell may be the bigger operator, but Sienna has some attractive income and growth offerings.

CATEGORY

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1. TSX:CSH.UN (Chartwell Retirement Residences)
2. TSX:SIA (Sienna Senior Living Inc.)

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Author

brianparadza

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