# These Recession-Proof Retirement Stocks Have Huge Growth Potential

## Description

With a maturing business cycle and uncertainties around trade and interest rate policy, some are predicting that a recession is just around the corner. Whether you believe that the next recession will come in one, two, or three years, it is always a good idea to look out for stocks that are resistant to general economic downturns.

Recession-proof stocks are usually found in industries that provide essential products or services. One such industry is long-term care facilities. Companies in this industry are poised for meteoric growth because of favourable demographic trends.

There is tremendous demand for long-term care services in Canada. In Ontario alone, there are more that 30,000 people on the waiting list for these services. With 8.5 million people over the age of 60, the demand will only grow in the years to come.

Let's take a closer look at three of the biggest companies in the Canadian long-term care industry: **Chartwell Retirement Residences** (TSX:CSH.UN), **Sienna Senior Living** (TSX:SIA) and **Extendicare** (TSX:EXE).



**Chartwell Retirement Residences**

Chartwell operates 195 communities. Its total revenue in 2017 was $800 million and adjusted net operating income (NOI) was $282 million, corresponding to an impressive operating margin of 35%.

74% of revenue is from retirement operations, which have a very high operating margin of 39%. These operations support independent living by providing age-qualified suites, townhouses or bungalows with housekeeping, meals/dining, laundry services, and personal assistance.

The remaining 26% of revenue comes from long-term care operations, which provide more extensive 24-hour bedside nursing care. Chartwell's long-term care operations have a much lower operating margin of 13%.

Recent growth has been very good. Resident revenue and adjusted NOI increased by 9.2% and 10.5%, respectively, for the first six months of this year compared to the corresponding period last year.

**Sienna Senior Living Inc.**

Sienna operates 85 communities. In 2017, total revenue was $558 million and NOI was $118 million. Sienna is more reliant on its long-term care operations than Chartwell.

Long-term care accounts for 80% of Sienna's revenue, while 20% comes from the more lucrative retirement operations. As a result, Sienna's overall operating margin of 21.2% is 65% lower than Chartwell's.

To increase its overall operating margin, Sienna has focused on increasing its retirement operations through acquisitions. For the first six months of this year, retirement revenue increased by over 90%, while total revenue and NOI increased by 13.2% and 26.2%, respectively, compared to the corresponding period last year.

**Extendicare Inc.**

In addition to resident-based long-term care and retirement operations, Extendicare also provides home healthcare and purchasing services for clients. Total revenue in 2017 was $1.1 billion, while total NOI was $135.8 million.

The company operates 120 communities. Extendicare's ParaMed home healthcare service delivers an average of 30,000 hours of care per day.

56% of revenue is from long-term care, 39% from home health care, 3% from retirement living operations, and the rest is from management consulting and purchasing operations.

Extendicare's long-term care and home healthcare operations have operating margins of 11.6% and 11.4%, respectively, which accounts for the company's relatively low overall operating margin of 12.3%. For the first six months of this year, revenue increased by 1.5%, while NOI was flat compared to the corresponding period last year.

Similar to Sienna, Extendicare has recently focused on expanding its retirement operations to boost its operating margins. It currently has three new locations in development.



**Which should you buy?**

Given current demographic trends, all three stocks would make excellent additions to your portfolio. Chartwell has been favoured by investors recently due to its significantly higher operating margins. However, its price-to-sales ratio of 3.9 is the highest of the three companies and its dividend yield of 3.8% is the lowest.

With dividend yields of 5.1% and 5.8%, respectively, Sienna and Extendicare are very attractive for income investors. Both companies could grow rapidly if investments in retirement operations continue. Overall, Extendicare's low price-to-sales ratio of 0.7, along with its diversified operations and high dividend yield, offers the best mix of value, safety, and income.

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2. TSX:EXE (Extendicare Inc.)

3. TSX:SIA (Sienna Senior Living Inc.)

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**Date**
2025/08/20
**Date Created**
2018/08/29
**Author**
kvassall