Bad Medicine: Approach These 3 Healthcare Stocks With Caution

Description

Healthcare has to be one of the most defensive sectors on the TSX index, with medical stocks theoretically offering a bit of recession-proof backbone to a long-term investor. However, finding a single healthy stock in this space is challenging at the moment, so let's take a look at a few of the top Canadian healthcare stocks and see what ailments they seem to be suffering from.

Sienna Senior Living (TSX:SIA)

This popular stock is often a top choice in the senior housing services space, representing exposure to the Canadian long-term care (LTC) industry. On a tear since the end of December, Sienna Senior Living is now trading at around twice its book price, and with a P/E ratio that tops 100 times earnings – perfect if you're looking to cash in, but is it the wrong time to buy?

Despite 48.8% five-year returns that are impressive in their own right, there are higher performing stocks out there, so if this is your base metric, you might want to keep looking; indeed, the average Canadian healthcare returns over the same half-decade were considerably higher at 68.3%.

A high volume of shares were sold by Sienna Senior Living insiders in the last three months; however, newcomers may be enticed by a decent dividend yield of 4.99% coupled with a 23.4% expected annual growth in earnings – an outlook analysis that is generally not as easy to come by this year as it was in 2018.

Extendicare (TSX:EXE)

Extendicare's share price seems to have plateaued over the last few weeks, leaving the question of whether it's going to resume its holiday growth curve or revert to a protracted slump. This senior care and services stock is generally underperforming, so let's see whether there's any upside or passive income to be squeezed from it.

This fairly obvious TSX index choice is something of a mixed bag at the moment: while a dividend yield of 6.59% is certainly enticing, a P/E of 79.6 times earnings and P/B of 5.1 times book are anything but. As a passive income choice it's certainly got a lot going for it – its dividends per share have been stable over the last decade, for instance – though for a long-term consideration, its debt level of 420.3% of net worth may put off the risk-averse investor.

Medical Facilities (TSX:DR)

Investment doesn't get much more defensive that emergency healthcare, and this stock's sturdy position in the specialty surgical hospital sector makes it a strong choice for a medical asset buyer. Again, passive income is the main draw, and Medical Facilities ups the ante here with a dividend yield of 6.89%.

However, with a negative one-year past earnings growth and low five-year average of 1.6%, there's not much by way of a track record, here. While a past-year ROE of 26% speaks to the quality of this stock, a high debt 91% of net worth suggests a less than healthy balance sheet, while a P/B of 2.8 times book indicates overvaluation.

The bottom line

While Sienna Senior Living has delivered more than 20% year-on-year earnings growth in the last five years (66.8%), its balance sheet is let down by a comparative debt level of 179.4% of net worth, counting it out for the strictly low-risk investor. This kind of lopsidedness seems symptomatic of healthcare stocks in general this year, indicating an industry that may need to be approached with heightened discernment.

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