5% Dividend Yield With High Growth: Too Good to Be True?

Description

For most investors, there's no better mix than steady growth, high dividends, expanding demand, and reasonable valuations. Markham, Ontario-based **Sienna Senior Living** (TSX:SIA) seems to tick all the boxes.

The publicly traded seniors housing company owns and manages 87 residential properties scattered across Ontario and British Columbia. At the end of the fourth quarter of 2018, the average occupancy rate at these properties was well above 90% (more than 98% in some cases). The company generated $151 million in net operating income and paid out $0.0765 per share in dividends, equivalent to a yield of about 4.96%.

The basic investment thesis for Sienna is that it's a well-managed company with an attractive portfolio of properties and a good reputation operating in a market with steady and expanding growth over the long term.

Over the next few decades, Canada's population is likely to get much older. The cohort of people aged 80 years or older is expected to expand at an annual rate of 3% for the next five years. Meanwhile, the nation's average population growth is a mere 1.2%. In fact, population growth has been close to 1% over the past two decades.

In 2014, there were nearly six million seniors, defined as those over the age of 65, in Canada. By 2036, this number could be as high as 10 million, making up 25% of the Canadian population.

Long-term care (LTC) home and assisted-living property managers like Sienna are well placed to serve this growing market. In fact, Sienna already faces near-full capacity and a long waiting list for LTC rooms at its facilities.

This combination of predictability, high demand, and low supply has encouraged the company's management to hand out handsome dividends to shareholders while tapping the debt market to fuel acquisitions of new properties and developments.

The company has also managed to solidify its balance sheet in recent years, reducing debt to book value and debt to earnings while boosting the interest coverage ratio. This has helped the company's bond rating and brought the weighted average cost of debt down to a manageable 3.9%.

According to their latest investor presentation, management's goal is to diversify the mix of clients and strike a half-and-half balance between private paying customers and government-funded retirees. The cycle of debt and operating income will allow the company to expand its portfolio of properties for the foreseeable future while generating capital appreciation and steady income for investors.

Valuation

Sienna's stock currently trades at 12.5 times adjusted funds from operations (AFFO) in 2018. That ratio is lower than its competitor **Chartwell Retirement Residences** (17.3) but slightly higher than **Extendicare** (11.8).

Meanwhile, the company's dividend yield is lower than Extendicare (6.34%) but higher than Chartwell's (4%).

I haven't had a chance to take a closer look at these competitors, but Sienna's stock price has outperformed both companies and the benchmark real estate index for the industry over the past five years. That could indicate a competitive moat built into the company's management, brand reputation, or property locations.

In any case, I believe Sienna is worth a closer look regardless of whether you're an income-seeking or growth investor. Both the micro-economic and macro-economic factors make this an interesting opportunity.

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