Dividend Investors: Don't Miss Out on This Massive Long-Term Opportunity

Description

There's a massive glut of Canadian baby boomers who are all slowly getting older.

More than nine million Canadians are part of the generation, which is loosely defined as consisting of anyone born between 1946 and 1964. The oldest members have hit their 70s while the youngest are still south of 60. These folks are beginning to have health problems spring up, which will inevitably put a strain on our medical system.

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Fortunately, there's a way you can make money on this undeniable trend. Medical advances have ensured most baby boomers alive today will live to see their 80th birthdays, with a surprising number of them predicted to age gracefully into their 90s.

At some point, these folks will move out of their homes and into retirement residences designed for their special needs. That's the massive investing opportunity before us today. Here are three different ways you can play that trend, collecting generous dividends while you wait.

Extendicare

Extendicare (TSX:EXE) is the way I've chosen personally to play this trend. I've owned shares for a few years now, buying right after the company announced it was exiting the U.S. market.

Extendicare owns 68 long-term care and retirement living centres in British Columbia, Alberta, and Ontario, with the majority of its portfolio skewed towards long-term care. It also manages an additional 53 retirement homes and has a robust home health division. These assets combine to generate just over $1.1 billion worth of revenue annually.

2018 was a decent year for the company, with total revenue ticking up a little more than 2%. Net operating income increased by a similar amount, but that didn't translate into improved adjusted funds from operations, which fell slightly. The good news is the company's generous 6% yield wasn't impacted; it's still safe with a payout ratio under 75%.

Growth going forward should come from two sources. The company continues to build new residences and it should update more of its long-term-care facilities in Ontario. This will result in higher funding from the provincial government on a per room basis, which should lift the bottom line.

Chartwell

Chartwell Retirement Residences (TSX:CSH.UN) is widely regarded as the finest retirement residences stock in Canada, boasting a market cap of $3.1 billion. It's the largest operator in the space with more than 200 retirement residences spread among four Canadian provinces.

The company's recently released 2018 results were solid. Revenue increased by more than 8% on the back of some newly acquired facilities in the Edmonton area. The acquisition wasn't accretive on a per-unit basis, however, with funds from operations falling from $0.93 per unit in 2017 to $0.90 per unit in 2018.

Chartwell estimates the industry will need to add some 600,000 suites between now and 2036. That would more than double the current supply, which stands at 425,000. To put that growth potential into perspective, Chartwell owns or manages just over 30,000 suites today.

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Oh, and investors are getting a 4% yield to wait, a payout that has been raised annually since 2015.

Sienna

Sienna Senior Living (TSX:SIA) is the owner of 70 different properties in Ontario and British Columbia. It also manages 17 properties for other investors. The company owns both long-term-care and retirement residences, with a slight focus on the latter.

Sienna is currently focused on expanding its retirement residences portfolio, since rents in that part of the market are determined by supply and demand. Long-term care is solely dependent on government funding, which is a little trickier to predict — especially in Ontario, which could see reduced government spending in many areas going forward.

Sienna has done a nice job growing its bottom line since the company's 2010 IPO, with adjusted funds from operations increasing some 4% annually on average. 2018's results saw adjusted funds from operations hit $1.44 per share versus a recently raised dividend of $0.92 per share. That gives us a rock-solid payout ratio of just 64%. Look for more dividend raises from Sienna in the future. Shares currently yield 5%.

The bottom line

Canada's retirement residence and long-term-care operators aren't just a future investment. These companies also offer generous dividends today, perfect for an investor who wants to tuck these names into a long-term portfolio. Give it a decade or two, and your future self will thank you.

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