TFSA Investors: Cash In on a Massive Long-Term Trend With This 6% Yielder

Description

One easy way to ensure investing success is to invest in a big, long-term trend well before the market has figured out the opportunity.

I believe such an scenario will play out in the Canadian seniors' living space. Let's take a closer look at how you can profit from this massive growth market.

Demographic trends

We all know there's a big glut of baby boomers here in Canada, but the numbers are really striking when you look at them closely.

Baby boomers outnumber every other generation in Canada, and it isn't really close either. According to the 2011 census, there are close to 10 million baby boomers residing here in Canada. The oldest baby boomers are now squarely in their 70s, and many have already retired. Others are holding onto some of the top positions at their companies, much to the chagrin of ambitious younger workers eager to climb the corporate ladder.

One reality of getting older is your health starts to suffer. The good news is, many chronic conditions are more treatable than ever, ensuring the average person is living a longer life. This has created many opportunities to serve this segment of the population.

The obvious investment implication here is simple. Seniors are going to need special housing, and **Extendicare** (TSX:EXE) is one company that is poised to take advantage of this opportunity.

The investment thesis

At this point, Extendicare is primarily in the long-term care space. It has 58 long-term care facilities, located primarily in Ontario and Alberta. Long-term care consistently posts high occupancy rates, because there is still a shortage of beds, and the company is in the process of securing higher rates from the Government of Ontario on a per-patient basis by upgrading some of its older facilities.

Besides long-term care, the company has become a leader in home healthcare services in Canada, has a robust division that manages facilities (and purchasing) for other companies in the sector, and it has recently entered the retirement residences part of senior living. Retirement residences has the largest expansion potential today.

Extendicare has 10 retirement living communities today with the potential to greatly add to this part of the portfolio over the long term. Remember, there are no restrictions to these developments, unlike the tightly regulated long-term care market. The company can expand as fast as the market will allow.

At the end of 2018, retirement living accounted for just 3% of Extendicare's revenues, but nearly 7% of its operating profits. And that part of the company is expanding much faster than the rest; recent quarterly results saw the retirement living division post strong growth.

With a new facility slated to open in Barrie, Ontario, in the fourth quarter, look for results from this part of the company to be strong in 2020, too.

Get paid to wait

It will likely take years for the full Extendicare bull thesis to play out. After all, it takes time to build new retirement facilities.

The good news is investors are paid a generous dividend to wait. The current payout is $0.04 per share on a monthly basis, which is good enough for a 6% yield today. That's a great payout, especially in today's low interest rate world.

One thing to note about the dividend. Extendicare has cut the payout in the past, which is something certain dividend investors do not want to see. The good news is the payout is quite sustainable today with a payout ratio of approximately 80%.

The bottom line

The demographics don't lie. There are millions of baby boomers who are collectively sitting on trillions of dollars of real estate. These folks will likely downsize at some point. This trend has created a massive opportunity for stocks in the retirement residences space, like Extendicare.

If you buy shares today, you'll likely be thanking yourself a decade from now. It really is that simple.

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Date
2025/07/02
Date Created
2019/09/11
Author
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