This Dividend Stock Dropped 7.7% and Yields 5.2%: Is it a Buy?

Description

After the market closed on Wednesday, **Sienna Senior Living** (TSX:SIA) reported its fourth-quarter and full-year 2019 results. The stock reacted by tumbling 7.7% yesterday.

You may recall that Sienna Senior Living is a leading owner and operator of senior residence in key markets of Ontario and British Columbia.

Let's review its recent results to see if it's an opportunity or not to buy the healthcare stock on the dip.

Q4 and full-year 2019 results

In 2019, Sienna Senior Living experienced revenue growth of 4.3% to $670 million and net operating income (NOI) growth of 3.7% to $157 million.

Its long-term-care portfolio was fine with an average occupancy above 98% for Q4 and 2019. Overall, in 2019, the company operating funds from operations per share (FFOPS) fell 1.6%, and adjusted FFOPS fell 3%. This resulted in the payout ratio climbing to 66% against 62% in 2018.

In Q4, Sienna Senior Living's revenue increased 1.6% against the comparable quarter in 2018. However, NOI declined 2.7%, operating FFOPS fell 4.8%, and adjusted FFOPS fell 4.9%. This resulted in the payout ratio climbing to 75% against 70% in Q4 2018.

Management attributed the Q4 NOI decline to oversupply in Ottawa and new supply in Kingston and South Surrey markets that caused average same-property occupancy in retirement to fall to 86.1% against Q4 2018's 91.8%.

Additionally, operating expenses are growing a bit faster than revenue, which is a drag on the bottom line. Specifically, revenue growth was 4.3%, while the operating expenses grew 4.5% in 2019.

The dividend is safe

Income investors would enjoy Sienna Senior Living's monthly dividend. At $18.11 per share at writing, the stock provides a yield of nearly 5.2%.

Although the payout ratio expanded to 75% in Q4 2019 and 66% for the full-year 2019, it is still a sustainable payout ratio.

Balance sheet improvement

Year over year, Sienna Senior Living's balance sheet saw improvement. Its debt to gross book value improved 1.7% to 46%. Moreover, its weighted average cost of debt fell 30 basis points to 3.6%. It's also awarded a "BBB" investment-grade credit rating from DBRS.

Should you buy the stock now?

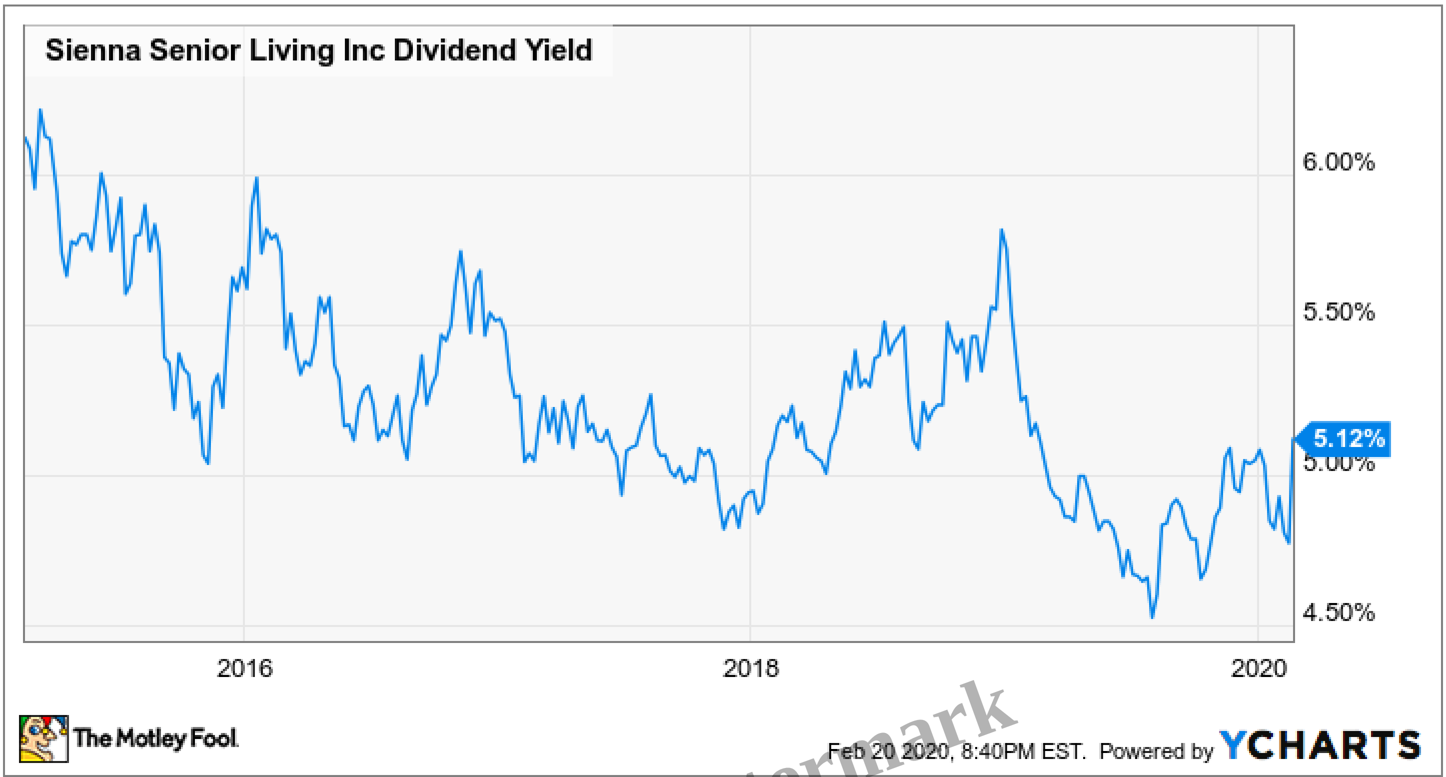
Analysts' average 12-month price target on Sienna Senior Living stock is $20.10 per share, which represents a discount of about 10%, or near-term upside potential of 11%. So, it isn't a huge bargain.

At writing, the stock trades at the low end of the trading channel between $18 and $19.50 per share, which began around mid-2019.

Additionally, management did not provide any earnings guidance for 2020 in the press release, which suggests more clarity is needed in terms of the supply dynamics of the industry.

There is a long-term trend of a growing aging population, so income investors who have a long-term investment horizon will do fine buying the stock here. However, it'd be more prudent to wait a quarter or three to observe how the oversupply situation will play out.

If the stock breaks below the $18 level, the next support level is below $17 for more than 5% downside risk. That's the dividend return right there!



SIA Dividend Yield data by YCharts

The stock's five-year dividend yield history indicates a 6% yield is a good target to buy the stock at.

If the stock yields close to 6% over the next 12 months (i.e., the stock reaches a price target of close to $15.60 per share based on the current annualized dividend of $0.936 per share), Sienna Senior Living would be a better buying opportunity.

There are better dividend stocks to buy.

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