



Investor Alert: These 3 Senior Care Companies Are in for a Rough Ride

Description

The broad senior care industry, whether it be nursing home services or home care, is often a sector which receives a tonne of positive attention from most investors. And understandably so. We are now seeing a demographic shift, with aging baby boomers entering their golden years and thus requiring more care. This has some investors seeing green.

In this article, I'm going to use three companies to discuss why I think this broad sector is going to have a tough five to 10 years ahead and why investors need to be very careful about theme-based investing.

Sienna Senior Living

One of Canada's largest and most well-known providers of long-term senior care, **Sienna Senior Living** ([TSX:SIA](#)) is one of the first companies Canadian investors look to. Investors are drawn to Sienna due to the company's size and integrated business model. About half of the company's revenue derives from long-term care. The other half comes from retirement residences/housing. Sienna shareholders really benefit from both the company's accommodation/real estate portfolio as well as the services provided at these properties, much in the same way as a hotel or resort.

The issue Sienna has had of late is a lower net operating income (NOI). This is a key fundamental valuation metric for investors, mainly due to higher vacancy rates across the sector and questions about how fast these vacancies will be able to be absorbed by the sector moving forward.

Chartwell Retirement REIT

As far as operational issues go relating to the real estate portion of Sienna's business model, **Chartwell Retirement REIT** ([TSX:CSH.UN](#)) is suffering from these same headwinds. [High vacancy rates](#) across the sector are significantly hampering Chartwell's earnings. In fact, earnings have been hovering around zero in recent years. This is due, in part, to the company spending money on building out and maintaining its properties. Also, this is due to the company's struggles to get its vacancy rate below breakeven.

Chartwell is a real estate investment trust (REIT), so investors will notice a very decent dividend yield. On the surface, this seems great. But when one considers the lack of earnings underpinning these payouts, they ought to be concerned. If these payouts continue, Chartwell will be forced to take on debt or raise equity. In either case, this will be negative for investors.

Extendicare

In some sense a competitor to both Sienna and Chartwell, **Extendicare** is a provider of home care solutions to seniors who wish to stay at home rather than go to a nursing home. That said, competitive issues in this niche market have all hurt margins and profitability. Headwinds such as the rising cost of healthcare labour and materials in this sector have impacted margins negatively.

Bottom line

The vacancy rate/supply glut affecting the senior care competitive landscape combined with real long-term cost issues around labour provide a very negative medium-term picture for me. I don't see any scenario in which senior care becomes attractive from an investment standpoint without a 50% drop based on current valuations. (I view currently valuations as extremely out of whack). I would encourage theme-based investors to find another theme to focus on.

Stay Foolish, my friends.

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2. retirement
3. senior care

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