Here's How I'd Play the Senior Living Space

Description

The coronavirus pandemic has had an impact on nearly every facet of society. Turning on the news or flipping the channels accentuates this point for investors. Finding a sector or group of high-quality companies with strong, secular, long-term drivers at an attractive valuation may seem too good to ignore. Such is the case with the senior living and senior care space today.

In this article, I'm going to discuss the three key players in this arena. I will describe why **Sienna Senior Living** (TSX:SIA) is the winner.

Three major players in the senior living space

Among the three key players in Canada, Sienna Senior Living, **Chartwell Retirement REIT** (TSX:CSH.UN), and **Extendicare** (TSX:EXE), there are varying levels of exposure to different business models. In the senior housing space, there are really two segments: retirement housing and long-term-care facilities.

In the news, long-term-care facilities have gotten the bulk of the negative press of late. This is due to serious and deadly coronavirus outbreaks at various long-term-care facilities across Canada. These deaths are both tragic and detrimental to the reputation of these operators.

Some operators have been hit harder than others. Therefore, deciphering which companies to invest in for the short term would require some analysis of the dispersion of outbreaks. For long-term investors, I believe that long-term care facilities will provide a headwind for investors relative to retirement housing due, in part, to the COVID-19 pandemic. This is because I expect additional regulations and increased costs relating to staff salaries, which are the largest variable expense for these operators.

A coronavirus headwind

The Canadian government deemed these otherwise low-paid workers in long-term-care facilities "essential." It looks like their salaries will be topped up accordingly. Therefore, I expect workers will require higher levels of compensation moving forward, whether this is mandated or not.

Salaries are the largest expense for these companies. Therefore, we ought to assess the breakdown of each company's business model. Extendicare is nearly entirely focused on the long-term-care facility space. Chartwell is mostly retirement housing focused. Sienna has a mix of both retirement housing and long-term-care facilities. So, why Sienna then?

Chartwell's fundamentals have traditionally been weaker than its peers. This has been a real problem for me. Balance sheet strength has grown ever more important in this environment. Chartwell has seen a relatively high rate of outbreaks at its facilities relative to its peers. Sienna has a very reasonable valuation and had traditionally been undervalued relative to its peers. This makes Sienna a winner in my books.

Additionally, I view Sienna's dividend yield as safer than its peers, mainly for the reasons stated above. The company's strong balance sheet and low price risk due to a significant portion of the company's being paid by the government is a big positive. Increased service levels may result in cost increases. However, the ability of Sienna to pass these costs on to their customers (such as the government) is a long-term profitability driver.

Bottom line

For those looking to invest in this beaten-up sector, take a deeper look at Sienna Senior Living. This company with the best outlook of the bunch for the long term, in my view.

Stay Foolish, my friends.

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1. Coronavirus
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1. TSX:CSH.UN (Chartwell Retirement Residences)
2. TSX:EXE (Extendicare Inc.)
3. TSX:SIA (Sienna Senior Living Inc.)

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