



Better Buy: Chartwell Stock or Sienna Senior Living?

Description

Stocks in the senior housing sector were hit hard in the 2020 pandemic year with reduced occupancy. From the 2020 market crash bottom, the senior housing stocks appreciated about 60-70% from trough to peak.

They have sold off again this year. Challenges include labour shortages, higher inflation, and higher interest rates, which have increased operating costs and pressured margins. This could be another buy-the-dip opportunity for investors for potential capital gains in addition to pocketing some nice income along the way.



CSH.UN and SIA data by YCharts

Let's compare two senior housing stocks, **Chartwell Retirement Residences** ([TSX:CSH.UN](#)) and **Sienna Senior Living** ([TSX:SIA](#)), for a potential buy. Their market caps are about \$1.9 billion and \$798 million, respectively.

The businesses

Based on adjusted net operating income (NOI), about 90% of Chartwell's portfolio is in retirement operations with the remainder in long-term-care operations. About 62% of its portfolio is in Ontario, 29% in Quebec, 10% in British Columbia, and 8% in Alberta.

Chartwell's retirement operations experienced year-to-date occupancy of 77.2%. It expects to improve the occupancy rate to 95% by 2025. For the record, the last time it experienced an occupancy rate of +90% was in 2018.

Sienna's portfolio consists of about 93 long-term-care or retirement residences. It owns and operates seniors' living residences in British Columbia, Saskatchewan, and Ontario. Sienna's retirement portfolio saw an average occupancy rate of 86.5% year to date.

Dividends

Chartwell stock yields 7.6% at writing. Although its payout ratio is extended this year, management noted that the real estate stock has sufficient liquidity to cover its distributions. Improving occupancy will also improve the safety of its distributions.

Chartwell's cash distribution typically has a high percentage of return of capital that reduces investors' cost base and are ultimately taxed like capital gains. However, in 2023, it expects the majority of its distributions to be eligible dividends. So, for interested investors buying a new position, they could buy units in non-registered accounts, [Tax-Free Savings Accounts](#) (TFSAs), or Registered Education Savings Plans (RESPs).

Sienna pays out eligible dividends. So, it's good for holding in non-registered accounts, unless you have room in a TFSA or RESP. At writing, it yields 8.5%. Its payout ratio of under 100% is a little safer.

Both stocks pay out monthly cash distributions. So, they could be good income stocks.

Outlook

As Chartwell is exiting its long-term-care operations in Ontario, it expects to receive net proceeds of \$202.9 million assuming the transaction will close by the end of the year. Management is planning to use the net proceeds to pay down debt, which is a good idea given a higher cost of borrowing from rising interest rates. If management is able to improve its occupancy, the value stock could turn around over the next few years.

The long-term outlook for the sector looks intact. Sienna noted in its third-quarter report that the "long-

term demand fundamentals in Canadian seniors living remain strong... our sector's resiliency is largely driven by the rising needs of seniors, who make up the fastest-growing demographic in Canada."

The Foolish investor takeaway

Between the two, Sienna appears to be a little safer with higher occupancy and a lower payout ratio. At \$10.95 per share at writing, analysts believe the [undervalued stock](#) has about 32% upside potential over the next 12 months. That said, for the higher risk that investors are taking in Chartwell, they could potentially pocket upside of about 41% over the next 12 months based on the quotation of \$8.05 per share at writing. In any case, it would be safer for interested investors to have an investment horizon of three to five years to allow time for the businesses to turn around.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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

PARTNER-FEEDS

1. Business Insider
2. Flipboard
3. Koyfin
4. Msn
5. Newscred
6. Quote Media
7. Sharewise
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