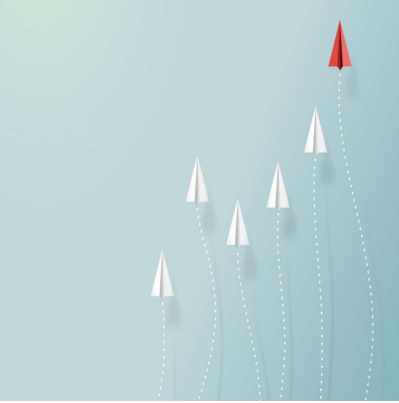




The Bull Case for Extendicare Stock

Description

This COVID-19 pandemic has really widened the gap between various sectors. One such metric we've seen reflected in how investors view companies is on whether a company could be considered essential or not. In this in this article, I'm going to discuss a business that's become essential in the minds of many: **Extendicare Inc.** ([TSX:EXE](#)).

Essential nature of business now fully realized

Many investors, myself included, may not have fully appreciated the [essential nature of extended care](#) and its peers in the long-term care space. Historically speaking, many investors may not know that this private industry was born on the idea that government-run hospitals would see overcapacity, leaving seniors with no place to go.

Passing off these essential tasks to the private sector solved a big problem in a way that did not require major government spending — a win-win for this public-private partnership.

This COVID-19 pandemic essentially underscored the need for those facilities. Outbreaks brought additional scrutiny on the sector. This spotlight, I think, highlighted the scale of this sector. Also, this brought attention to the demand growth Extendicare and its peers have seen due to aging boomer demographics.

As it stands, long-term care is a key component of Extendicare's business model. However, it is only one of five lines of business the company has. This diversification is not to be ignored.

Over regulation risk may not be as bad as advertised

There is one key worry many investors, including myself, have harped on in the long-term space. That worry is the potential for additional government regulation in this sector. The death toll in long term care facilities in Canada and around the world is truly staggering.

Public outrage, and the political backlash from having failed to prevent this catastrophe is likely to lead to much higher levels of regulation on this sector. Such expectations are typically met with investor caution. This is true with any business. Thus, stock prices have reacted accordingly.

That said, there is still a bull argument to make in Extendicare's favour. Even if the dial is turned up, additional regulation may not be a bad thing for two reasons. First, most long-term care facilities have already implemented extremely high cleanliness standards and hygiene procedures.

Regulating what is already been done is unlikely to change long-term cost structure or margins of Extendicare or its peers.

Second, these additional regulations could provide financial markets with a sense of comfort and a feeling of security in owning Extendicare stock for the long-term period.

There is a bullish macro demand growth trend underpinning Extendicare's core business. Therefore, a feeling of safety should theoretically bode well for investors. This should also hold true for Extendicare's stock price.

Bottom line

I believe any near-term chill that comes over the long-term care sector due to this pandemic can be viewed positively in the context of a long-term investor. Companies like Extendicare are necessary now. Further, they will become even more important in the years to come.

Those with a long-term investment time horizon ought to not overlook the bullish growth trajectory Extendicare offers currently.

Stay Foolish, my friends.

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chrismacdonald

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