Sienna Senior Living Inc. (LWSCF)

Updated March 1st, 2021 by Nikolaos Sismanis

Key Metrics

Current Price:	$11.25	**5 Year CAGR Estimate:**	5.9%	**Market Cap:**	$767 M
Fair Value Price:	$11.25	**5 Year Growth Estimate:**	0.0%	**Ex-Dividend Date:**	03/30/2020[1]
% Fair Value:	100%	**5 Year Valuation Multiple Estimate:**	0.0%	**Dividend Payment Date:**	04/15/2020
Dividend Yield:	6.6%	**5 Year Price Target**	$11.00	**Years Of Dividend Growth:**	N/A
Dividend Risk Score:	F	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	N/A

Overview & Current Events

Sienna Senior Living provides senior housing and long-term care (LTC) services in Canada. The company offers a range of seniors' living options, including independent and assisted living, memory care, long-term care, and specialized programs and services, as well as management services. As of its latest report, Sienna owned and operated a total of 70 senior living residences, including 27 retirement residences, 35 LTC residences, and 13 senior living residences. Sienna generates around $520 million in annual revenues and is based in Markham, Canada.

It's worth noting that while its operations involve heavy use of its real estate assets and reports AFFO (Adjusted Funds from Operations) instead of EPS, the company has not registered itself as a REIT. Additionally, the stock is originally listed on the TSX (Toronto Stock Exchange). All numbers in this report have been converted to USD unless otherwise noted.

On February 18th, 2021, the company reported its Q4-2020 and full-year results for the period ending December 31st, 2020. For the quarter, revenues decreased by -1.9% to C$168.8M once again as a result of occupancy softness, partially offset by annual rate increases. Despite the relatively stable top line, AFFO decreased by -37.4% to C$0.196 vs. the comparable period last year due to higher expenses related to COVID-19, as the company's business model (which relies on the well-being of elders) demands major precautions due to the pandemic. Excluding the pandemic expenses, however, AFFO/share decreased by a softer 10.2% YoY to C$0.281, indicating overall stability in the company's underlying business. The company's average occupancy now stands at a healthy 84.8%, but still significantly lower compared to 98.2% from a year ago. The company is working on rapidly rolling-out vaccines. Around 92% of its long-term care residents have been vaccinated, along with around 60% of its staff.

While management didn't provide specific financial guidance, it expects occupancy softness moving in the first half of the year, but improvements during the second half of the year, with increased overall demand for its properties. Hence, we forecast AFFO/share of US$0.90 for FY2021.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
AFFO/Share	$0.85	$1.19	$1.13	$0.87	$0.89	$1.13	$1.15	$1.05	$1.01	$0.82	***$0.90***	***$0.90***
DPS	$0.83	$0.86	$0.85	$0.78	$0.65	$0.67	$0.72	$0.66	$0.71	$0.74	***$0.74***	***$0.74***
Shares[2]	23	27.4	29.9	36.3	36.4	40.5	47.3	63.8	66.5	67	***67.5***	***80.0***

Sienna Senior Living's AFFO/share has been slowly but gradually growing in its original CAD reporting. However, due to the deprecation of the Canadian Dollar against the U.S. dollar over the past few years, American investors have seen slightly weaker financials. The same applies towards DPS, which the company pays out on a monthly basis. Since 2011, DPS on the TSX has gradually grown from C$0.071 per month to C$0.078 as of now. However, shares trading OTC (over the counter) have suffered FX fluctuations, resulting in lower dividends over time.

[1] Estimated dates
[2] Share count is in millions.

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While we expect the company to slightly grow its AFFO as its costs get back to normal post-COVID-19, we estimate 0% growth in both its AFFO and DPS going forward taking into consideration the possibility for a CAD/USD depreciation similar to the past. Nonetheless, believe the company can deliver improving results going forward as its occupancy should rise as COVID-19 eases and a higher percentage of vaccinated residents attracts new potential residents. Finally, the rental collection has been excellent, above 99.0% throughout the year.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
P/AFFO	12.8	10.5	8.8	14.3	13.5	11.7	11.3	12.9	14.1	13.7	***12.5***	***12.5***
Avg. Yld.	8.3%	7.7%	0.7%	6.7%	5.2%	5.1%	5.1%	5.0%	5.1%	5.1%	***6.6%***	***6.6%***

Investors have priced shares with a relative low multiple over the years. The company has been able to produce resilient results and even grow its dividend by a little bit gradually (in $C terms). We expect the security's P/AFFO to remain relatively constant, around 12.5 going forward. Sienna's shares are fairly valued at its current levels.

Due to the stock's decline as a result of the ongoing pandemic, which caused AFFO to decline, its yield is the highest it has been in years, currently around 6.6%. We expect the yield to remain close to its current levels going forward.

Safety, Quality, Competitive Advantage, & Recession Resiliency

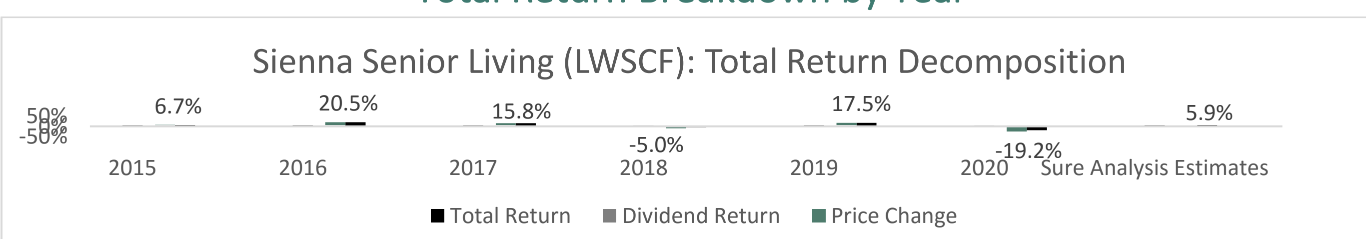
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	98%	72%	75%	90%	73%	59%	63%	63%	70%	90%	82%	***82%***

Sienna Senior Living's dividend should be quite safe, backed by a comfortable payout ratio. DPS fluctuations have been entirely due to CAD/USD fluctuations, as management has been increasing DPS throughout the years. While the company doesn't hold any significant competitive advantage, its robust revenue generation during the adverse environment caused by COVID-19 showcases a likely strong performance amid a future prolonged recession. Additionally, its Ontario and British Columbia residents, which comprise the majority of its rental revenues, continue receiving full funding for vacancies by the Canadian government. This is reflected in its robust rental collection, which further shields Sienna's stable performance in case the pandemic persists for longer. Finally, liquidity stands at C$217 million, while Sienna's average cost of debt declined by 40 basis points during the quarter, to 3.2%, which illustrates the company's qualities, especially during the current unfavorable environment for its industry.

Final Thoughts & Recommendation

Sienna Senior Living is a conservatively managed company providing relatively stable returns to its shareholders. While American investors have enjoyed weaker returns due to FX fluctuations, the company's underlying operations remain robust, with a decent occupancy ratio and a resilient rental collection record even under the ongoing pandemic. Still, due to a lack of sufficient growth catalysts and the possibility for a slight valuation compression, we expect moderate annualized returns at around 6% in the medium term. Shares earn a hold rating.

Total Return Breakdown by Year



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Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	293	319	343	414	355	376	430	495	505	496
SG&A Exp.	15	13	13	16	14	14	16	16	19	15
D&A Exp.	33	28	28	36	27	30	29	55	58	58
Operating Profit	(1)	16	20	22	24	30	46	46	41	21
Operating Margin	-0.4%	5.0%	5.9%	5.4%	6.7%	8.0%	10.8%	9.3%	8.2%	4.2%
Net Profit	(12)	(9)	(9)	(14)	6	9	17	8	6	(18)
Net Margin	-4.1%	-2.9%	-2.7%	-3.5%	1.6%	2.3%	3.8%	1.5%	1.1%	-3.6%
Free Cash Flow	25	17	21	18	31	29	35	34	49	37
Income Tax	(6)	2	(1)	(6)	2	2	5	2	4	(7)

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	631	748	918	816	686	893	1,109	1,287	1,296	1,316
Cash & Equivalents	21	9	15	25	19	20	15	17	16	75
Accounts Receivable	5	7	5	4	5	6	6	8	10	14
Goodwill & Int. Ass.	174	188	224	193	161	229	279	319	307	290
Total Liabilities	454	543	680	644	558	671	794	870	890	965
Accounts Payable	35	41	51	51	45	55	65	72	74	30
Long-Term Debt	348	427	562	535	461	557	670	746	759	810
Shareholder's Equity	177	205	237	172	127	223	315	417	406	351
D/E Ratio	1.96	2.08	2.37	3.12	3.62	2.50	2.13	1.79	1.87	2.31

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	-2.0%	-1.3%	-1.1%	-1.7%	0.8%	1.1%	1.6%	0.6%	0.4%	-1.4%
Return on Equity	-7.0%	-4.8%	-4.1%	-7.0%	3.8%	4.9%	6.1%	2.1%	1.4%	-4.8%
ROIC	-2.4%	-1.6%	-1.3%	-1.9%	0.9%	1.2%	1.9%	0.7%	0.5%	-1.6%
Shares Out.	23.0	27.4	29.9	36.3	36.4	40.5	47.3	63.8	66.5	67
Revenue/Share	12.74	11.68	9.64	10.61	9.06	8.70	8.60	7.64	7.59	7.40
FCF/Share	1.10	0.62	0.58	0.47	0.80	0.67	0.70	0.53	0.73	0.55

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.