Sienna Senior Living Inc. (LWSCF)

Updated August 13th, 2021 by Nikolaos Sismanis

Key Metrics

Current Price:	$12.57	**5 Year CAGR Estimate:**	5.3%	**Market Cap:**	$842.6 M
Fair Value Price:	$12.50	**5 Year Growth Estimate:**	0.0%	**Ex-Dividend Date:**	08/28/2021[1]
% Fair Value:	101%	**5 Year Valuation Multiple Estimate:**	-0.1%	**Dividend Payment Date:**	09/15/2021
Dividend Yield:	6.0%	**5 Year Price Target**	$12.50	**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 and 43 LTC residences. The company also manages only an additional 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 August 11th, 2021, Sienna Senior Living reported its Q2-2021 results for the period ending June 30th, 2021. For the quarter, revenues decreased by -0.2% (in constant currency) to $129.86 million once again as a result of occupancy softness, partially offset by annual rate increases. AFFO declined by 15.2% YoY to $11.26 million, or $0.17/share. The decline was due to lower NOI and lower recovery of current income taxes, partially offset by lower interest expense on long-term debt. NOI suffered from lower LTC preferred accommodation revenue due to lower occupancy in private and semi-private rooms and higher labor costs and property expenses. The company's average occupancy now stands at 78.1%, improved from last quarter's 77.7%, but is still significantly lower than Q2-2020's 83%. This is due to a decline in new residents moving in following the general impact and access restrictions related to the COVID-19 pandemic. Management has worked on rapidly vaccinating residents. Around 96% of its long-term care residents have been vaccinated, along with nearly 88% of its staff. While no specific financial guidance was provided, Sienna expects continued gradual occupancy improvements during the second half of the year. The company's growth efforts also include the recent construction of a 150-suite joint venture in Niagara Falls, with an expected yield of 7.5%. We retain our expected AFFO/share to $1.00 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	***$1.00***	***$1.00***
DPS	$0.83	$0.86	$0.85	$0.78	$0.65	$0.67	$0.72	$0.66	$0.71	$0.74	***$0.75***	***$0.75***
Shares[2]	23	27.4	29.9	36.3	36.4	40.5	47.3	63.8	66.5	67.0	***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 to 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

[1] Estimated dates

[2] Share count is in millions.

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counter) have suffered FX fluctuations, resulting in lower dividends over time. 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 AFFO/share and DPS going forward, considering the possibility for CAD/USD's depreciation similar to the past. The weak occupancy at the moment is another factor that contributes to that as well. Nonetheless, the rental collection has been excellent, above 99.0% throughout the past quarters, and 98.9% as of July 2021.

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	***12.6***	***12.5***
Avg. Yld.	8.3%	7.7%	0.7%	6.7%	5.2%	5.1%	5.1%	5.0%	5.1%	5.1%	***6.0%***	***6.0%***

Investors have priced shares with a relatively 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. The stock's yield is the highest it has been in years, currently at 6.0%. We expect both the valuation and, consequently, the yield to remain rather stable going forward.

Safety, Quality, Competitive Advantage, & Recession Resiliency

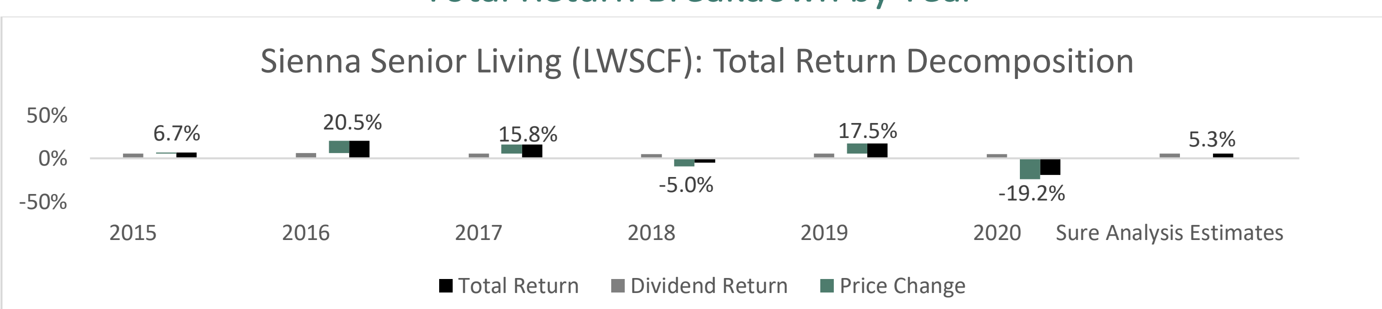
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	98%	72%	75%	90%	73%	59%	63%	63%	70%	90%	75%	***75%***

Sienna Senior Living's dividend should be pretty safe for now. 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. That being said, the company runs the risk of potentially not improving its occupancy anytime soon, which could hurt its financials if and when the Canadian government's support pauses on August 31st. Finally, while liquidity stands at C$235 million, Sienna's average cost of debt grew by 10 basis points during the quarter, to 3.4%.

Final Thoughts & Recommendation

Sienna Senior Living is a conservatively managed company providing relatively stable returns to its shareholders. Due to the lack of sufficient growth catalysts both in its AFFO/share & DPS and relatively stable valuation expectations ahead, we expect annualized returns of around 5.3% 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.