Sienna Senior Living Inc. (LWSCF)

Updated August 12th, 2022 by Nikolaos Sismanis

Key Metrics

Current Price:	$10.72	**5 Year CAGR Estimate:**	5.9%	**Market Cap:**	$85.1 M
Fair Value Price:	$10.63	**5 Year Growth Estimate:**	0.0%	**Ex-Dividend Date:**	06/28/2022[1]
% Fair Value:	101%	**5 Year Valuation Multiple Estimate:**	-0.2%	**Dividend Payment Date:**	07/15/2022
Dividend Yield:	6.8%	**5 Year Price Target**	$10.63	**Years Of Dividend Growth:**	N/A
Dividend Risk Score:	F	**Retirement Suitability Score:**	C	**Rating:**	Hold

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 80 senior living residences, including 38 retirement residences and 42 LTC residences. The company also manages only an additional 14 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, 2022, Sienna Senior Living reported its Q2-2022 results for the period ending June 30th, 2022. For the quarter, revenue grew by 10.7% year-over-year (in constant currency) to $140.8 million. The increase was mainly driven by occupancy growth, annual rental rate increases, and additional revenues from the 12 newly acquired properties in Sienna's retirement segment. Flow-through funding for increased direct care provided to residents and higher preferred accommodation revenues from increased occupancy also boosted results. Revenue growth was offset by last year's property depositions. AFFO declined by 21.7% year-over-year to $13.4 million. The increase was primarily due to higher NOI, partially offset by higher current income tax expenses and higher administrative expenses. On a per-share basis, AFFO grew by a lesser 12.4% to $0.18 as a result of a higher share count utilized to fund the company's acquisitions.

The company's average occupancy now stands at 87.1%, up 820 basis points year-over-year By the end of July, occupancy had increased further to 88.6%. We continue to expect a FY2022 AFFO/share earnings power estimate of $0.85, excluding any one-off effects related to COVID-19 expenses and government funding.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
AFFO/Share	$1.19	$1.13	$0.87	$0.89	$1.13	$1.15	$1.05	$1.01	$0.82	$0.85	***$0.85***	***$0.85***
DPS	$0.86	$0.85	$0.78	$0.65	$0.67	$0.72	$0.66	$0.71	$0.74	$0.73	***$0.73***	***$0.73***
Shares[2]	27.4	29.9	36.3	36.4	40.5	47.3	63.8	66.5	67.0	67.0	***72.8***	***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 during some years, American investors have seen slightly weaker financials. The same applies to DPS, which the company pays out on a monthly basis. Since 2010, DPS on the TSX has gradually grown from C$0.071 per month to C$0.078 as of now. However, shares trading over the counter (OTC) have suffered FX fluctuations, resulting in lower dividends over time. While we expect the company to slightly grow its AFFO following occupancy levels returning to normal and new sites under development coming online, we estimate 0%

[1] Estimated dates based on past dividend dates/

[2] Share count is in millions.

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.

growth in both AFFO/share and DPS going forward. This is to be prudent against an inflationary environment with rising interest rates, which could negatively affect both the company's operating and financial expenses. FX effects could also sway results either way, though mostly marginally.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
P/AFFO	10.5	8.8	14.3	13.5	11.7	11.3	12.9	14.1	13.7	14.1	***12.6***	***12.5***
Avg. Yld.	7.7%	0.7%	6.7%	5.2%	5.1%	5.1%	5.0%	5.1%	5.1%	6.0%	***6.8%***	***6.9%***

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 slowly but gradually (in $C terms). Shares have undergone a notable valuation compression lately, likely attributable to risks related to inflation and rising rates. We believe the current P/AFFO of 12.6, while humble, is quite fair. Thus, unless the macroeconomic environment improves, we don't see the multiple having expansion prospects. The stock's yield is currently 6.8% and is close to the highest it has been in years. We expect both the valuation and, consequently, the yield to remain rather stable going forward.

Safety, Quality, Competitive Advantage, & Recession Resiliency

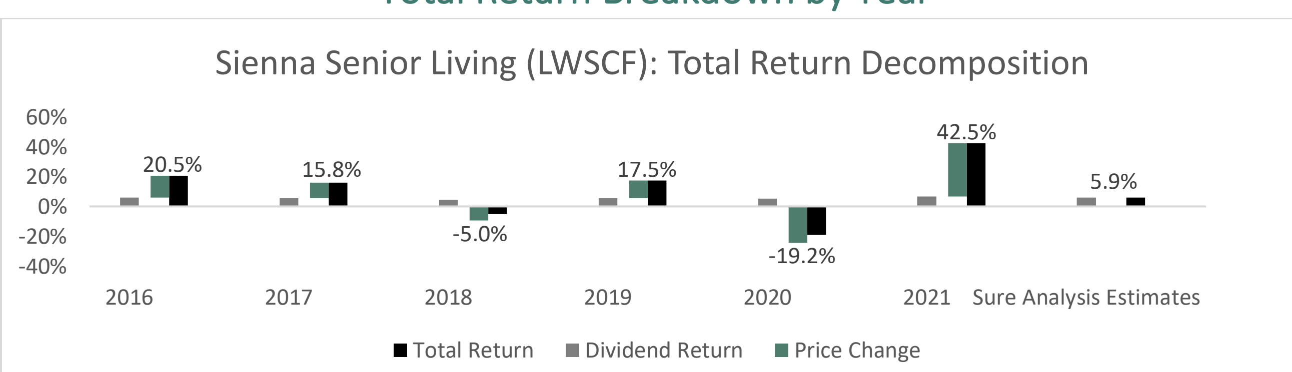
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	72%	75%	90%	73%	59%	63%	63%	70%	90%	86%	***86%***	***86%***

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, received full funding for vacancies by the Canadian government during the pandemic. This was reflected in last year's rental collection rate which was nearly 100%. Government funding is likely to be resumed amid a potential COVID-19 resurgence next year, potentially shielding the company. Sienna's liquidity currently stands at C$262.5 million, while its average cost of debt remains stable sequentially at 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 and DPS and relatively stable valuation expectations ahead, we forecast annualized returns of around 5.9% in the medium-term. Shares earn a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	319	343	414	355	376	430	495	505	496	533
SG&A Exp.	13	13	16	14	14	16	16	19	15	25
D&A Exp.	28	28	36	27	30	29	55	58	58	42
Operating Profit	16	20	22	24	30	46	46	41	21	46
Operating Margin	5.0%	5.9%	5.4%	6.7%	8.0%	10.8%	9.3%	8.2%	4.2%	8.6%
Net Profit	(9)	(9)	(14)	6	9	17	8	6	(18)	16
Net Margin	-2.9%	-2.7%	-3.5%	1.6%	2.3%	3.8%	1.5%	1.1%	-3.6%	3.0%
Free Cash Flow	17	21	18	31	29	35	34	49	37	45
Income Tax	2	(1)	(6)	2	2	5	2	4	(7)	6

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	748	918	816	686	893	1,109	1,287	1,296	1,316	1,262
Cash & Equivalents	9	15	25	19	20	15	17	16	75	23
Accounts Receivable	7	5	4	5	6	6	8	10	14	17
Goodwill & Int. Ass.	188	224	193	161	229	279	319	307	290	285
Total Liabilities	543	680	644	558	671	794	870	890	965	944
Accounts Payable	41	51	51	45	55	65	72	74	30	17
Long-Term Debt	427	562	535	461	557	670	746	759	810	745
Shareholder's Equity	205	237	172	127	223	315	417	406	351	318
LTD/E Ratio	2.08	2.37	3.12	3.62	2.50	2.13	1.79	1.87	2.31	2.34

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	-1.3%	-1.1%	-1.7%	0.8%	1.1%	1.6%	0.6%	0.4%	-1.4%	1.3%
Return on Equity	-4.8%	-4.1%	-7.0%	3.8%	4.9%	6.1%	2.1%	1.4%	-4.8%	4.9%
ROIC	-1.6%	-1.3%	-1.9%	0.9%	1.2%	1.9%	0.7%	0.5%	-1.6%	1.5%
Shares Out.	27.4	29.9	36.3	36.4	40.5	47.3	63.8	66.5	67	67
Revenue/Share	11.68	9.64	10.61	9.06	8.70	8.60	7.64	7.59	7.40	7.95
FCF/Share	0.62	0.58	0.47	0.80	0.67	0.70	0.53	0.73	0.55	0.67

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