Sienna Senior Living Inc. (LWSCF)

Updated August 13th, 2023 by Nikolaos Sismanis

Key Metrics

Current Price:	$8.53	**5 Year CAGR Estimate:**	7.6%	**Market Cap:**	$626.7 M
Fair Value Price:	$8.80	**5 Year Growth Estimate:**	0.0%	**Ex-Dividend Date:**	08/30/2023[1]
% Fair Value:	97%	**5 Year Valuation Multiple Estimate:**	0.6%	**Dividend Payment Date:**	09/15/2023
Dividend Yield:	8.2%	**5 Year Price Target**	$8.80	**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 82 senior living residences, including 39 retirement residences, 35 LTC communities, and 8 seniors' living residences. The company also manages only an additional 11 senior living residences. Sienna generates around $530 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, 2023, Sienna Senior Living reported its Q2 results for the period ending June 30th, 2023. For the quarter, revenues grew by 10.1% year-over-year to $147.6 million. The increase was mainly driven by occupancy growth, annual rental rate increases in line with market conditions, and additional revenues from the 12 properties acquired last year quarter.

AFFO grew by 14.1% year-over-year to $14.6 million. The increase in AFFO was mainly due to higher NOI (Net Operating Income) in the Retirement segment, which was, in turn, driven by an increase in same property NOI, a fullquarter of NOI from the 12 properties acquired in Q2 2022, and the acquisition of a campus of care in Q1. On a per-share basis, AFFO also grew, but by a softer 13% to $0.20. This was due to a higher share count utilized to fund the company's acquisitions.

The company's average occupancy during the quarter stood at 86.9%, up 10 basis points year-over-year. For this year, management expects average same-property occupancy to exceed 90%. While rising interest rates will be a headwind to profitability this year, operating results remain strong. We now expect AFFO/share of $0.80 for fiscal 2023.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
AFFO/Share	$1.13	$0.87	$0.89	$1.13	$1.15	$1.05	$1.01	$0.82	$0.85	$0.70	***$0.80***	***$0.80***
DPS	$0.85	$0.78	$0.65	$0.67	$0.72	$0.66	$0.71	$0.74	$0.74	$0.69	***$0.70***	***$0.70***
Shares[2]	29.9	36.3	36.4	40.5	47.3	63.8	66.5	67	67	72.9	***72.9***	***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

[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.

AFFO following occupancy levels returning to normal and new sites under development coming online, we estimate 0% 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, hence our neutral stance.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
P/AFFO	8.8	14.3	13.5	11.7	11.3	12.9	14.1	13.7	14.1	14.5	***10.7***	***11.0***
Avg. Yld.	0.7%	6.7%	5.2%	5.1%	5.1%	5.0%	5.1%	5.1%	6.0%	6.8%	***8.2%***	***8.0%***

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 slowly but gradually (in CAD$ terms). Given that rates remain on the rise and that Sienna lack meaningful growth prospects, we retain our fair multiple at 11. Still, we believe the current P/AFFO of 10.7 slightly undervalues Sienna's prospects. The 8.2% yield is substantial, and should contribute most of the stock's expected future returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

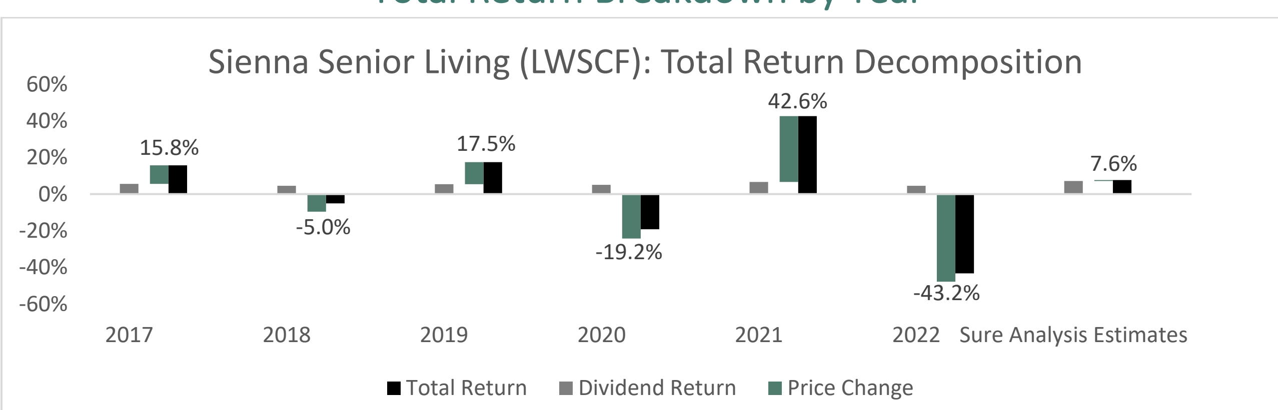
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	75%	90%	73%	59%	63%	63%	70%	90%	87%	99%	***88%***	***88%***

Sienna Senior Living's dividend should remain covered 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 prolonged future recession. Additionally, its Ontario and British Columbia residents, which comprise the majority of its rental revenues, received full funding for vacancies from 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 during any potential shock in the economy, shielding the company. Sienna's liquidity currently stands at nearly C$276 million, while its average cost of debt rose by 30bps to 3.7% versus last year.

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 the possibility of minor valuation tailwinds ahead, we forecast annualized returns of around 7.6% in the medium-term. Shares earn a hold rating.

Total Return Breakdown by Year



Click here to rate and review this research report. Your feedback is important to us.

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.

Sienna Senior Living Inc. (LWSCF)

Updated August 13th, 2023 by Nikolaos Sismanis

Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	343	414	355	376	430	495	505	496	533	552
SG&A Exp.	13	16	14	14	16	16	19	15	25	25
D&A Exp.	28	36	27	30	29	55	58	58	42	36
Operating Profit	20	22	24	30	46	46	41	21	46	38
Operating Margin	5.9%	5.4%	6.7%	8.0%	10.8%	9.3%	8.2%	4.2%	8.6%	6.9%
Net Profit	(9)	(14)	6	9	17	8	6	(18)	16	8
Net Margin	-2.7%	-3.5%	1.6%	2.3%	3.8%	1.5%	1.1%	-3.6%	3.0%	1.4%
Free Cash Flow	21	18	31	29	35	34	49	37	45	37
Income Tax	(1)	(6)	2	2	5	2	4	(7)	6	0.4

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	918	816	686	893	1,109	1,287	1,296	1,316	1,262	1,238
Cash & Equivalents	15	25	19	20	15	17	16	75	23	28
Accounts Receivable	5	4	5	6	6	8	10	14	17	13
Goodwill & Int. Ass.	224	193	161	229	279	319	307	290	285	263
Total Liabilities	680	644	558	671	794	870	890	965	944	918
Accounts Payable	51	51	45	55	65	72	74	30	17	33
Long-Term Debt	562	535	461	557	670	746	759	810	745	721
Shareholder's Equity	237	172	127	223	315	417	406	351	318	320
LTD/E Ratio	2.37	3.12	3.62	2.50	2.13	1.79	1.87	2.31	2.34	2.25

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	-1.1%	-1.7%	0.8%	1.1%	1.6%	0.6%	0.4%	-1.4%	1.3%	0.7%
Return on Equity	-4.1%	-7.0%	3.8%	4.9%	6.1%	2.1%	1.4%	-4.8%	4.9%	2.6%
ROIC	-1.3%	-1.9%	0.9%	1.2%	1.9%	0.7%	0.5%	-1.6%	1.5%	0.8%
Shares Out.	29.9	36.3	36.4	40.5	47.3	63.8	66.5	67	67	71.59
Revenue/Share	9.64	10.61	9.06	8.70	8.60	7.64	7.59	7.40	7.95	7.72
FCF/Share	0.58	0.47	0.80	0.67	0.70	0.53	0.73	0.55	0.67	0.52

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