



# Sienna Senior Living Inc. (LWSCF)

Updated November 12<sup>th</sup>, 2023 by Nikolaos Sismanis

## Key Metrics

<b>Current Price:</b>	\$7.61	<b>5 Year CAGR Estimate:</b>	7.3%	<b>Market Cap:</b>	\$557.4 M
<b>Fair Value Price:</b>	\$7.40	<b>5 Year Growth Estimate:</b>	0.0%	<b>Ex-Dividend Date:</b>	11/29/2023 <sup>1</sup>
<b>% Fair Value:</b>	103%	<b>5 Year Valuation Multiple Estimate:</b>	-0.6%	<b>Dividend Payment Date:</b>	12/15/2023
<b>Dividend Yield:</b>	8.9%	<b>5 Year Price Target</b>	\$7.40	<b>Years Of Dividend Growth:</b>	N/A
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	C	<b>Rating:</b>	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, 34 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 November 10<sup>th</sup>, 2023, Sienna Senior Living reported its Q3 results for the period ending September 30<sup>th</sup>, 2023. For the quarter, revenues grew by 5.6% year-over-year to \$141.3 million. The increase was mainly driven by annual rental rate increases, higher care and ancillary revenue, and additional revenues from the properties acquired over the last 12 months. These increases were offset by a 0.6% decline in average same-property occupancy.

AFFO grew by 18.4% year-over-year to \$14.2 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 and the acquisition of a campus of care in Q1 2023. Lower spending on maintenance capital due to timing also boosted AFFO. On a per-share basis, AFFO also grew by about 18.4% to \$0.20 due to a relatively unchanged share count.

For this year, management expects average same-property occupancy to grow during the last three months of the year. While rising interest rates are and will be a headwind to profitability, operating results remain strong. We now expect AFFO/share of \$0.74 for fiscal 2023.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>AFFO/Share</b>	\$1.13	\$0.87	\$0.89	\$1.13	\$1.15	\$1.05	\$1.01	\$0.82	\$0.85	\$0.70	<b>\$0.74</b>	<b>\$0.74</b>
<b>DPS</b>	\$0.85	\$0.78	\$0.65	\$0.67	\$0.72	\$0.66	\$0.71	\$0.74	\$0.74	\$0.69	<b>\$0.68</b>	<b>\$0.68</b>
<b>Shares<sup>2</sup></b>	29.9	36.3	36.4	40.5	47.3	63.8	66.5	67	67	72.9	<b>72.9</b>	<b>80.0</b>

Sienna Senior Living's AFFO/share has been slowly but gradually growing in its original CAD reporting. However, due to the depreciation 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%

<sup>1</sup> Estimated dates based on past dividend dates.

<sup>2</sup> 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.



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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	10.3	10.0
Avg. Yld.	0.7%	6.7%	5.2%	5.1%	5.1%	5.0%	5.1%	5.1%	6.0%	6.8%	8.9%	9.2%

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 lower our fair multiple at 10. The current P/AFFO of 10.3 more or less accurately reflects Sienna's prospects. The 8.9% yield is substantial, and should contribute most of the stock's expected future returns.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

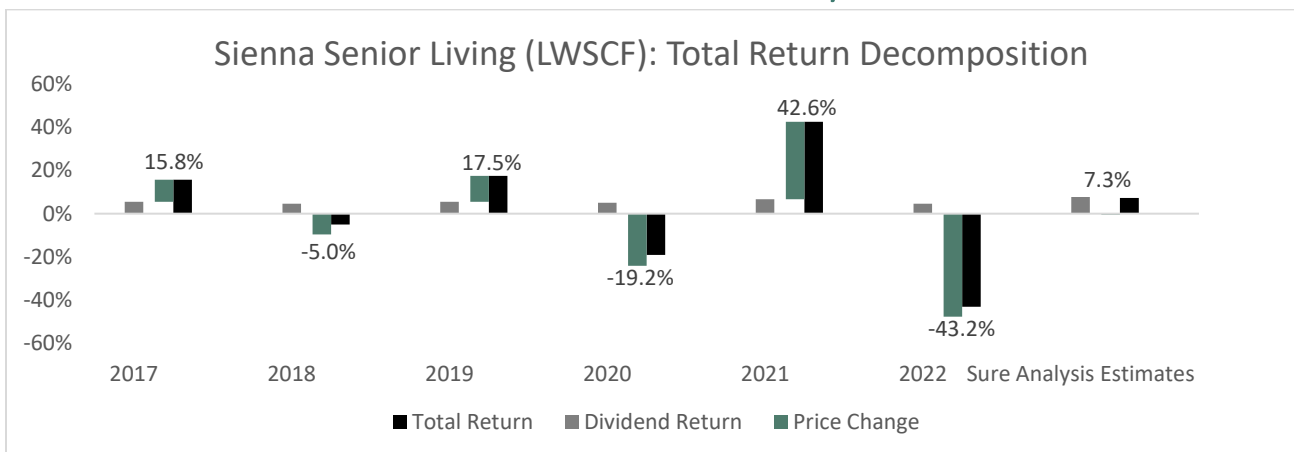
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	75%	90%	73%	59%	63%	63%	70%	90%	87%	99%	92%	92%

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\$324.4 million, while its average cost of debt rose by 20bps to 3.6% 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 7.3% in the medium-term. Shares earn a hold rating.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Revenue</b>	343	414	355	376	430	495	505	496	533	552
<b>SG&amp;A Exp.</b>	13	16	14	14	16	16	19	15	25	25
<b>D&amp;A Exp.</b>	28	36	27	30	29	55	58	58	42	36
<b>Operating Profit</b>	20	22	24	30	46	46	41	21	46	38
<b>Operating Margin</b>	5.9%	5.4%	6.7%	8.0%	10.8%	9.3%	8.2%	4.2%	8.6%	6.9%
<b>Net Profit</b>	(9)	(14)	6	9	17	8	6	(18)	16	8
<b>Net Margin</b>	-2.7%	-3.5%	1.6%	2.3%	3.8%	1.5%	1.1%	-3.6%	3.0%	1.4%
<b>Free Cash Flow</b>	21	18	31	29	35	34	49	37	45	37
<b>Income Tax</b>	(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
<b>Total Assets</b>	918	816	686	893	1,109	1,287	1,296	1,316	1,262	1,238
<b>Cash &amp; Equivalents</b>	15	25	19	20	15	17	16	75	23	28
<b>Accounts Receivable</b>	5	4	5	6	6	8	10	14	17	13
<b>Goodwill &amp; Int. Ass.</b>	224	193	161	229	279	319	307	290	285	263
<b>Total Liabilities</b>	680	644	558	671	794	870	890	965	944	918
<b>Accounts Payable</b>	51	51	45	55	65	72	74	30	17	33
<b>Long-Term Debt</b>	562	535	461	557	670	746	759	810	745	721
<b>Shareholder's Equity</b>	237	172	127	223	315	417	406	351	318	320
<b>LTD/E Ratio</b>	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
<b>Return on Assets</b>	-1.1%	-1.7%	0.8%	1.1%	1.6%	0.6%	0.4%	-1.4%	1.3%	0.7%
<b>Return on Equity</b>	-4.1%	-7.0%	3.8%	4.9%	6.1%	2.1%	1.4%	-4.8%	4.9%	2.6%
<b>ROIC</b>	-1.3%	-1.9%	0.9%	1.2%	1.9%	0.7%	0.5%	-1.6%	1.5%	0.8%
<b>Shares Out.</b>	29.9	36.3	36.4	40.5	47.3	63.8	66.5	67	67	71.59
<b>Revenue/Share</b>	9.64	10.61	9.06	8.70	8.60	7.64	7.59	7.40	7.95	7.72
<b>FCF/Share</b>	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.

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