



## Missed Out on Restaurant Brands International Inc.? Check Out This Upcoming IPO

### Description

As the old axiom goes, you have to pay for quality.

It doesn't matter if you're buying socks or stocks; a higher price usually means better quality. Take **Restaurant Brands International Inc.** ([TSX:QSR](#))([NYSE:QSR](#)), the recent amalgamation between Tim Hortons and Burger King. When Burger King acquired the crown jewel of Canadian fast food, it paid dearly for the company, loading up the balance sheet with debt in the process. The plan is to use Tim's generous cash flow to pay it back.

Investors are quite bullish on this new combination and the stock is priced accordingly. Analysts are expecting the new company to earn \$1.02 per share in 2015, following it up with \$1.26 per share in 2016. That puts the stock at 47.3 and 38.3 times estimated earnings for the next two years respectively, which is pretty expensive. I'm bullish on the future of Tim Hortons too, but not that bullish.

For investors looking for an alternative in the sector, I have good news. Another Canadian food giant is about to go public, giving investors their first chance in years to invest in some of Canada's best fast food and fast casual brands. Let's take a closer look.

### Great brands

If you're Canadian, I'm willing to bet you've eaten at a Swiss Chalet. You've probably gone to Harvey's and had a made-to-order hamburger too. These two chains are **Cara Operations Ltd.**'s two largest brands, with about 500 stores between them.

Cara also owns a number of smaller brands, like East Side Mario's, Montana's, Kelsey's, Milestones, Casey's, The Irish Pubs, and Bier Market. These small brands combine for approximately 350 restaurants across the country.

Together, all these brands form a formidable moat. Most Canadians are familiar with the the larger brands, while the smaller ones can provide growth.

## Roll-up opportunity

Tim Hortons has Roll Up the Rim, but Cara has the much more exciting roll-up opportunity, at least for investors.

There are dozens of small restaurant chains in the country that could benefit from being part of the Cara family. **MTY Food Group** has been active in consolidating small restaurant brands, but with a market cap of only \$600 million, it lacks the clout to go after any of the large players in the sector.

Cara's market cap after its IPO looks to be approximately \$1.1 billion after raising \$200 million in the deal. The founding family will continue to hold voting shares along with **Fairfax Financial Holdings Ltd**., which took a position in the privately held company back in 2013. If the company needs to take on debt for an acquisition, there's plenty of capital behind it.

## Be careful

Although investors should be excited at the opportunity to invest in a Canadian restaurant powerhouse, they need to pause before jumping into the stock.

At this point, we don't know a whole lot about the company's financials. More information should come out as we get closer to the IPO date, which looks to be in the second week of April.

Remember, companies that are debuting on the market don't tend to come cheap. The banks underwriting this deal have done plenty of market research before floating it, and obviously institutional investors are excited about the opportunity. The banks also have the option to add an additional 15% more shares than originally allocated to the IPO if demand warrants it. This option wouldn't exist if the bankers weren't bullish on this deal.

This means that investors should be cautious about buying into this IPO. Give it a few days to settle down once it begins trading, and make sure to get more info about the company before buying. As with anything, the price for Cara shares can get too high. But if you choose your spot intelligently, owning shares of this great restaurant company seems like a no-brainer.

## CATEGORY

1. Investing

## TICKERS GLOBAL

1. NYSE:QSR (Restaurant Brands International Inc.)
2. TSX:QSR (Restaurant Brands International Inc.)

## Category

1. Investing

## Date

2025/08/27

## Date Created

2015/03/24

**Author**  
nelsonpsmith

default watermark

default watermark