



Should You Give Cara Operations Ltd. a Taste?

Description

Cara Operations Ltd. (TSX:CARA) is a Canadian restaurant operator that also provides catering services to airlines. The company has an impressive portfolio of brands, including Harvey's, Swiss Chalet, Kesley's, Milestones, East Side Mario's, Bier Market, Prime Pubs, Montana's, and St-Hubert.

The stock is now down 25.93% from its high last November, as many of the company's early investors are now down by substantial amount. Is the portfolio of terrific Canadian favourites worth adding to your portfolio? Or could the stock be headed for more difficult times ahead?

Approximately 88% of Cara Operations's locations are franchised. This means the company doesn't really have to worry about the day-to-day operations at a lot of its restaurants. The management team is focused on driving customer traffic and increasing same-store sales.

In Cara's most recent quarterly report, same-store sales grew by 1.9%, which marks the seventh straight quarter of same-store-sales growth. Sure, it's not firing on all cylinders, like **Restaurant Brands International Inc.** ([TSX:QSR](#))([NYSE:QSR](#)), but I still think the company will be able to deliver terrific results over the long term for patient investors.

The brands are fairly well known in Canada, but they're not even close to the same calibre as Restaurant Brands International's brands in Burger King and Tim Hortons, so it's definitely going to cost more for Cara to drive long-term same-store-sales growth.

Restaurant Brands is in another league, so it doesn't make sense to compare Cara to such a powerhouse. It's like comparing pee wee hockey to the Pittsburgh Penguins. There's no doubt that Restaurant Brands is the superior company with the better management team, but that doesn't mean you should scratch Cara Operations completely off your radar.

Canadians love brands like Swiss Chalet, with their delicious chicken dinners and sauces. But there really aren't that many locations outside Ontario (nearly two-thirds of the company's Canadian locations are in Ontario), so I think there are expansion opportunities for the company going forward, but it's not going to be easy.

The management team is no 3G Capital (which manages Restaurant Brands), so it's unrealistic to expect huge amounts of same-store-sale growth with tons of cost-cutting initiatives that will drive margins through the roof.

The stock currently trades at a hefty 22.16 price-to-earnings multiple with a mere 1.51% dividend yield. The stock is definitely not cheap, even if you consider the growth potential and the power of Cara's brands. Personally, I'd recommend sticking on the sidelines, at least until the stock drops to more reasonable valuations.

CATEGORY

1. Investing

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