Why it's Time to Consider Cara Operations Inc.

Description

Cara Operations Ltd. (TSX:CARA) is the oldest full-service restaurant company in the country. While you may not have heard of Cara before, the brands the company owns are some of the most well-known restaurants in the country, including Harvey's, Swiss Chalet, Milestone's, Montana's, Kelsey's, and St. Hubert.

Cara's +1,200 locations are concentrated in Ontario and Quebec, but in recent years the company has expanded to other regions in Canada and internationally.

There's plenty to love about Cara, and investors that are contemplating adding a restaurant stock to their portfolio would do well by considering Cara for a few reasons.

Sales are up despite a drop in sit-down visits

In the most recent quarter, Cara reported overall system sales of $641 million — up from $461 million posted in the same quarter last year. Much of this increase can be attributed to the addition of St. Hubert into Cara's portfolio over the past year, but industry experts caution that sit-down visits to restaurants will stay flat for much of this year, following an equally disappointing 2016.

Full-service restaurants are increasingly coming under attack in recent years from quick-service restaurants that have lower costs and a quicker turn-over time for customers. By way of example, full-service restaurants, such as many of Cara's brands, accounted for over 50% of the restaurant market a decade ago, whereas today that share of the market has shrunk to just over 40%.

While this may appear to have a negative effect on Cara, it has in fact exposed an opportunity for growth that the company continues to capitalize on.

A stronger, larger, more efficient Cara

In 2013, Cara merged with competitor Prime Restaurants. Since that time, Cara has adopted a more disciplined approach to controlling costs, which includes closing underperforming stores and, wherethe opportunity presents itself, acquiring new chains to add to Cara's growing portfolio.

Most recently, Cara acquired Original Joe's restaurants last fall for $93 million. The 99 locations of Original Joe's are concentrated in the west of the country, an under-served market that has become the focus of Cara's expansion efforts, much like the St. Hubert acquisition was for the Quebec market.

That strategy has proven wildly successful for Cara; it has nearly doubled the number of restaurant locations in three years and has seen revenue jump from $1.37 billion to $2.04 billion. During that same time, Cara has also reduced the debt to EBITDA from 6.2 times to just 2.1 times.

Cara CEO Bill Gregson recently noted that the company would like to get sales to $3.7 billion in the next five years, which would require additional acquisitions.

The non-restaurant business

Another one of Cara's recent acquisitions, St. Hubert has an impressive food-manufacturing business that sells soups, broths, sauces, and entrees in a variety of supermarkets.

This business was wildly successful for St. Hubert, accounting for a large chunk of sales. Leveraging that same success and applying it to other brands in the Cara family could fuel additional revenue growth for the company.

Is Cara a good investment?

In my opinion, Cara is an intriguing option for those investors looking to diversify their portfolios with a restaurant stock that has long-term potential. In addition to an aggressive growth strategy, Cara offers investors a quarterly dividend of $0.10169 per share, which provides a yield of 1.51%. While the yield may not be reason enough to invest in Cara, it provides an avenue for reinvestment that could lead to even more growth over time.

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