When it Comes to Growth, Cara Operations Ltd. Is No Chicken

Description

Cara Operations Ltd. (TSX:CARA) is a Canadian casual dine-in restaurant with a mere $1.52 billion market cap. The company owns many brands that you may be familiar with, including Swiss Chalet, Milestones, and East Side Mario's.

There are many other restaurant brands that you've probably never heard of, like St-Hubert, which Cara acquired about a year ago. St-Hubert is a casual dining restaurant with most of its locations in Quebec. Like Swiss Chalet, St-Hubert is known for its rotisserie chicken, so it's safe to say that Cara isn't chickening out when it comes to dominating the Canadian casual dine-in chicken market.

Cara bought St-Hubert's 120 chicken outlets as well as two food distribution centres for $537 million in a deal closed last September. The deal may not seem meaningful at first, especially if you're unfamiliar with the brand, but I believe that St-Hubert further strengthens Cara's vast portfolio of Canadian restaurant brands.

Let me tell you why.

St-Hubert is a huge deal in Quebec. Quebecers can't get enough of St-Hubert's chicken, and, according to industry analyst Robert Carter, St-Hubert has the highest customer loyalty out of any restaurant in Canada with the exception of Tim Hortons, of course. Mr. Carter stated, "Canadians are just not going out more often to restaurants. They're maintaining their usage of restaurants [and] in that environment, the only way to grow is to steal shares."

Quebec is a very difficult market to expand into. There's a barrier to entry if you will, and expanding Swiss Chalet locations into the province would have been an incredibly expensive and potentially risky proposition. That's why the St-Hubert deal made a huge amount of sense. St-Hubert has a wide moat and fits perfectly with Swiss Chalet, especially since there's barely any overlap between the two chains.

The incredible St-Hubert brand goes beyond casual dine-in restaurants. There are resto-bars, and St-Hubert Express chains which cater to those who prefer the fast-food model. Even if you don't live in Quebec, if you ever find yourself wandering around the frozen food section at your local grocery store, you may also come across St-Hubert branded frozen food products like chicken, tourtiere, gravy, or desserts. That’s how powerful the brand is, and I think there’s ample room to grow it across Quebec.

Takeaway

The St-Hubert acquisition is just scratching the surface. Cara owns many Canadian dine-in restaurant brands which will continue to thrive for many years to come. Most of Cara’s restaurants are located in Ontario, so that leaves ample room for growth in the rest of Canada. If the Ontario economy continues to strengthen, we can expect consumers to eat out more, and that means Cara is set to soar.

The stock has been beaten up of late and currently trades at a 15.33 price-to-earnings multiple, which I believe is quite cheap considering the power of the Canadian brands the company owns. If you’re bullish on the casual dine-in restaurants, and you think consumer spending will increase, then you should consider picking up shares of Cara while they’re cheap, because I don’t think they’ll be this cheap forever.

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