



Is Cara Operations Ltd. a Good Bet for Value-Hungry Investors?

Description

Cara Operations Ltd. (TSX:CARA) is the company behind Canadian dine-in favourites such as Swiss Chalet, Milestones, Harvey's, East Side Mario's, and St-Hubert, just to name a few. Cara also provides catering services to airlines.

Shares of Cara are down over 35% from all-time highs, and it appears that no catalysts are in sight that could bring the stock out of its funk.

For deep-value investors, Cara is one of the cheaper restaurant businesses out there, but it's cheaper for a reason and, unfortunately, there are many reasons to believe that shares could become even cheaper over the medium term.

Cara owns terrific brands, but there's one major problem: most of its restaurants are dine-in locations and not fast-food locations, which means that Cara's performance will depend on the strength of the economy and the amount of consumer spending. In the event of a harsh economic environment, going out to eat is probably on the top of the list of things to cut out of the budget. Fast food is affordable and convenient, but dine-in restaurants take time, and they can get quite expensive if you add on appetizers, dessert, alcohol, and gratuities. Even if you didn't include all of that as a part of your meal, you'll still be paying a premium price.

Eating out is a luxury, not a necessity. If consumer spending is weak, Cara will take a hit on the chin. Although fast-food and dine-in restaurants could both be considered cyclical, fast-food restaurants are really more of a staple when compared to dine-in restaurants, which are much more sensitive to the economic environment.

Even if the economy is strong and consumer spending is sky-high, dine-in restaurants may also take a backseat to fast-food restaurants, which have been renovating and innovating their locations to cater to those who want to sit down to enjoy their meals. One reason people go to a dine-in restaurant is because they want a nice place to sit down and relax while they enjoy their food.

Decor plays a big part of the dine-in experience, and some fast-food businesses have taken note by spending huge amounts to make locations more attractive to those who prefer to sit in rather than take

out. That means comfortable seating, cool art, and other forms of interior design may become the new norm for fast-food restaurants in the future.

Personally, I'm not a fan of extremely cyclical and unpredictable names like Cara, even if shares are ridiculously cheap. Shares currently trade at a 14.2 price-to-earnings multiple and have a 1.73% dividend yield. Cara is a value play, but it's a cyclical one, and there are industry-wide risks, so investors should be cautious.

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