Is Cara Operations Ltd. in Your Portfolio?

Description

Cara Operations Ltd. (TSX:CARA) owns a surprising number of restaurant chains, and it has a footprint that blankets much of the country.

If you are unfamiliar with Cara, the company is the oldest full-service restaurant operator in Canada with an extensive brand portfolio that includes Harvey's, Milestone's, Montana's, Kelsey's, Swiss Chalet, and St. Hubert.

Most of Cara's over 1,200 locations are centralized in Ontario and Quebec, but in recent years the company has found ways to branch out to new regions within Canada and internationally.

Cara's restaurant model is different

Cara is often compared to other companies in the food sector, and while this is understandable, doing so puts Cara at a slight disadvantage.

Cara's restaurants are nearly exclusively sit-down and eat-in restaurants — not the quick-service model that most other competitors operating in the same segment adhere to.

The success of sit-down restaurants like Cara's brands is largely dependent on the overall health of the economy, unlike the quick-service model, which thrives in economic downturns as consumers become more frugal and seek out more budget-conscientious meal options. This is a significant difference that is often overlooked when comparing the two types of restaurants.

The advantage of the sit-down restaurant is the potential for higher margins for the company and a better atmosphere for customers to enjoy a meal, who, in turn, will spend more and become repeat visitors if that atmosphere is pleasant enough.

Quick-service vendors, however, are primarily concerned with getting food (and customers) out the door as soon as possible.

Cara is branching out and acquiring more brands

Over the past few years, Cara has completed several acquisitions that have added to the company's brand portfolio and expanded its reach into new or underserved markets.

The Original Joe's and St. Hubert acquisitions are prime examples of this. The Original Joe's deal provided Cara with 99 locations in underserved western Canada, while the St. Hubert deal met a similar objective, targeting the Quebec market.

In terms of future growth, Cara is looking towards future potential acquisitions, which will only strengthen the company's bottom line and introduce additional cost savings synergies across all units.

What about results?

Cara recently reported results for the second fiscal of 2017. In that most recent quarter, Cara realized total system sales of $660.8 million, representing an impressive a 46.7% improvement over the same quarter last year. That boost in sales is primarily attributed to the result of the St. Hubert and Original Joe's acquisitions completed over the past year.

Operational EBITDA saw an increase of 26.8%, whereas same-restaurant sales saw a slight decrease of 0.3% in the quarter when compared to the same quarter last year. That decrease was largely attributed to the Easter holiday which fell within the reporting period this year. When Easter was excluded from the figure, Cara realized a growth of EBITDA by 0.3%.

Is Cara worthy of an investment?

Cara's aggressive growth strategy is finally beginning to show some results, and the company may still realize cost synergies and improvements in future quarters.

Another point for potential investors to consider is Cara's quarterly dividend of $0.10169 which carries a yield of 1.78%. While respectable, there are other dividends on the market that pay better and have stronger growth prospects.

In my opinion, Cara is an intriguing investment and is slated to grow over the long term, but it may not be *the* investment for everyone right now.

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