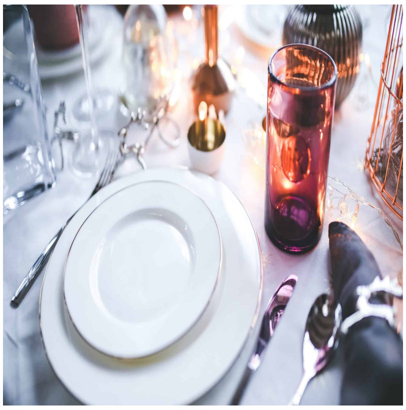

This Cheap Restaurant Stock Surged Over 20% During the Last 2 Months

Description

Cara Operations Ltd.'s (TSX:CARA) stock seems to fly under the radar of most Canadian value investors, despite its impressive portfolio of well-known dine-in brands, some of which are practically staples in their areas of operation. Think Swiss Chalet and St-Hubert.

In a previous piece, I'd pointed out that shares of CARA were extremely cheap, and investors who bought in would enjoy a considerable margin of safety. It hasn't even been a full month yet, and shares have soared ~8%, but if you're a value hunter, don't be discouraged; there's still a great deal of value to be had, as shares are still down ~28% from all-time highs at the time of writing.

For those who are unfamiliar with how Cara operates, it runs various dine-in restaurants across the country, along with its airline catering business. The company has been bolstering its portfolio of brands over the last few years with names like New York Fries, St-Hubert, and, more recently, Pickle Barrel restaurants. You may not be familiar with names like St-Hubert or Pickle Barrel, since they're smaller regional restaurants, but it's worth noting that these restaurants are a big deal in the markets they operate in.

St-Hubert is a huge deal in Quebec. Quebecers love their chicken, and it's not a mystery why Cara scooped up the brand. It gave the company immediate exposure to the province of Quebec with a loved brand that has a huge following.

A solid bet on the Ontario economy

Management at Cara has mainly stayed within its own circle of competence by keeping most of its locations within Ontario. Ontario's economy looks sound, even though minimum wage hikes may be a near-term drag on the company's bottom line. With a solid, growing portfolio of brands, I believe Cara has enough pricing power to hike prices by a slight amount to deal with such a headwind.

… and, unfortunately, it has a bet on the Albertan economy

Unfortunately, Cara also has a lot of locations in Alberta, which has been a huge drag. Dine-in restaurants are cyclical, and their performance is tied to the strength of the economy they operate in.

Unlike fast-food restaurants, dine-in restaurants are more likely to experience huge sales drops if the economy is weak. After all, eating out is usually one of the first expenses to cut when times become tough.

Bottom line

Cara may be a cyclical play, but it’s still quite cheap at a 2.3 price-to-sales multiple, considerably lower than the industry average. Assuming Cara continues to make smart acquisitions, or if the Albertan economy starts to show signs of a sustained recovery, CARA could surge, so investors looking for deep value could do incredibly well by picking up shares today.

Stay smart. Stay hungry. Stay Foolish.

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