

This Under-the-Radar Stock Takes a Big Step Towards Growth

Description

A few days before Christmas, the corporate news is coming to a grinding halt. Nonetheless, for shareholders of **Cara Operations Ltd.** (TSX:CARA), the latest morsel could be a sign of things to come.

On December 15, Cara filed a final short-form base shelf prospectus with securities regulators that allow it to go to the markets over the next 25 months to raise up to \$1.5 billion in debt and equity. It's the second time since going public in April 2015 that the company has filed one of these prospectuses.

The first time was November 18, 2015, when it filed for the same amount of \$1.5 billion and a 25-month period in which to go to the markets to raise debt and equity for the company. However, it also allows significant shareholders to sell some of their holdings.

A week after the 2015 filing, Cara filed a prospectus supplement so that the Phelan family, founders of Cara, could sell three million subordinate voting shares at \$34.75 per share. The company received none of these proceeds.

The Phelans haven't sold any more shares since and continue to own 14.5 million multiple voting shares or 40.9% of the total votes, while **Fairfax Financial Holdings Ltd.** ([TSX:FFH](#)) holds 56.6% of the votes and control of the restaurant operator.

Acquisitions since IPO

The company has made five acquisitions since going public in 2015, totaling \$692 million, not including its most recent purchase of the Pickle Barrel Group of Restaurants, a Toronto-area chain of upscale delis that also has a significant catering business.

The terms of the acquisition, which closed December 1, have not been released as of yet. However, in October I [wrote](#) about three reasons the company made the deal. With revenues of more than \$50 million annually, it gives Cara a bigger piece of the Ontario casual dining restaurant market.

Except for the St. Hubert deal at \$537 million, Cara hasn't been willing to open its purse strings very much since going public. Perhaps its latest shelf filing will be the starter fluid necessary to do something big.

But what would it buy?

I can think of one or two potential buys

On December 12, **MTY Food Group Inc.** ([TSX:MTY](#)) [announced](#) that it was buying **Imvescor Restaurant Group Inc.** (TSX:IRG), the parent of Pizza Delight and Baton Rouge restaurants, for \$4.10 per share in cash and stock. I suggested that Imvescor shareholders hang on to the MTY shares for many years to come.

However, Imvescor's largest shareholder — ADW Capital Partners with 14% of the stock — have come out against the deal, arguing that the actual value of its shares is at least \$5.75 a share to as much as \$7.45. At the high point of ADW's estimate, it's still about \$100 shy of what it paid for St. Hubert, so it's very doable.

The other possibility is the Joey group of restaurants that got its start in B.C. and has a bunch of locations in Toronto and other parts of Ontario. Joey also runs the Local, a more casual, bar-like restaurant. I'm not sure how much Cara would have to pay, but it probably wouldn't be that far off what ADW Capital Partners wants MTY to pay Imvescor.

At the end of the day, it seems silly to file a shelf prospectus if you're not going to use the funds to grow your business.

I expect to see Cara get busy in 2018 now that the integration of St. Hubert is pretty much in the books. That's excellent news for CARA shareholders.

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