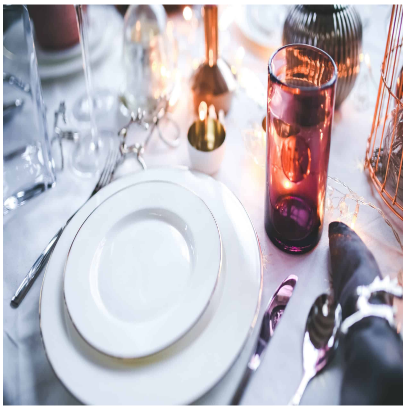

Cara Operations Ltd. Beefs Up With The Keg: Time to Buy?

Description

Cara Operations Ltd. (TSX:CARA) is a dine-in restaurant stock that's a fantastic way to play the rise of the millennial generation, who clearly value experiences like fine dining over materialistic goods versus their baby boomer parents.

While incredibly cyclical, I believe dine-in restaurants offer Canadian investors a unique and intriguing opportunity at these levels, especially after the $200 million ($105 million cash and ~3.8 million Cara in stock) deal to acquire Keg Restaurants Limited. The **Keg Royalties Income Fund** (TSX:KEG.UN), a 5.82% yielding security, will still remain following the closing of the acquisition, so The Keg's existing investors won't need to make any impulse decisions following the deal, as the royalties will still be distributed as usual with Cara in the mix.

Cara's beef-up lays down a promising U.S. growth foundation

The Keg complements Cara's finer dining brands in Milestones and the Bier Markt, but more notably, the newly acquired premium steakhouse offers Cara an intriguing foundation for a potential expedition into the U.S. market, with 10 U.S.-based locations being instantly added to Cara's impressive portfolio of Canadian dine-in brands.

Steak is essentially the national food of the U.S., so the deal opens up a window of opportunity for a potential U.S. expansion — an endeavour that could gradually make Cara a more robust growth engine over the longer-term.

Investing in what millennials value most

The Keg is arguably one of the fanciest restaurants out there, with millennials willing to fork over a larger chunk of their paycheque on experiences such as fine dining.

It's not just about the juicy steak either. It's about the ambience, the decor, and the finer details that come with a classy fine dining experience. The Keg has done an impeccable job with its recent renovations in order to maintain its upscale look, which is absolutely vital if you're going to charge customers a hefty premium on menu items.

The Keg will likely drive Cara's margins higher as the chain continues to expand, and as millennials replace their baby boomer counterparts in the workforce over the next decade, I think The Keg stands to be a major beneficiary. The Keg is all about product quality, consistency and freshness — traits that millennials value versus prior generations.

Valuation

Cara currently trades 16.34 trailing price-to-earnings multiple, a 2.7 price-to-book multiple, a 2.3 price-to-sales multiple and a 10.8 price-to-cash flow multiple. The stock's by no means expensive, even after the ~10% surge following The Keg acquisition. Cara has a very solid portfolio of dine-in brands, and at current levels it makes for a perfect buy for investors looking to play the rise of millennials and an increase in consumer spending.

I think Cara is both an undervalued and unappreciated stock when you consider the company's promising ~18.1% ROE (for the trailing 12 months) and the fact that cash flows are both stable and ample. With the latest Keg acquisition, it's clear that Cara's gravitating towards the finer side of dining — a move I believe will pay off major dividends as the millennials continue to become richer.

Stay hungry. Stay Foolish.

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TICKERS GLOBAL

1. TSX:KEG.UN (The Keg Royalties Income Fund)
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