Should You Buy the Dip in Cara Operations Ltd. and MTY Food Group Inc.?

Description

Statistics Canada released its Consumer Price Index (CPI) for January 2018 on February 23. CPI climbed 1.7% year over year following a 1.9% jump in December. Food prices rose 2.3% in January, with prices in restaurants jumping 3.7% in the month compared to 2.9% in December. In Ontario, restaurant prices rose 4.9%. The Canada Food Price Report released in late 2017 had projected that food prices at restaurants would rise between 4% and 6% in 2018.

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Bank of Montreal senior economist Robert Kavcic pointed to recent minimum wage hikes and the response from restaurants to raise prices as "a highly predictable response." However, the Food Price Report also projected that Canadians would be dining out far more in 2018 in comparison to prior years. Today, we will look at two Canadian restaurant companies that investors may want to monitor as we look ahead.

Cara Operations Ltd. (TSX:CARA)

Cara is a Vaughn-based company that owns and operates franchise restaurants in Canada. Cara stock has dropped 5.5% in 2018 as of close on February 26. On February 22, Cara completed its merger with Keg Restaurants Ltd., which operates under the name "The Keg Steakhouse & Bar" in Canada and the United States.

Cara is expected to release its 2017 fourth-quarter and full-year results on March 9. In the third quarter, the acquisitions of St. Hubert and Original Joe's powered system sales to grow by $184.6 million year over year to $684.7 million. Net earnings for the 39 weeks ending September 24, 2017 were $82.5 million in comparison to $47.3 million in the prior year.

The company also declared a quarterly dividend of $0.10 per share, representing a 1.6% dividend yield.

MTY Food Group Inc. (TSX:MTY)

MTY Food Group is a Montreal-based franchisor that specializes in quick-serve restaurants. Shares of MTY have declined 7.4% in 2018 thus far. The company released its 2017 fourth-quarter and full-year results on February 19.

MTY Food Group made a number of acquisitions over the 2017 fiscal year, including Steak Frites St-Paul, The Works Gourmet Burger Bistro, and Tiki Ming Enterprises, among others. Revenue grew 44% to $276 million compared to $191 million in the prior year. System sales soared 55% to $2.3 billion compared to $1.5 billion in 2016. For the full year, EBITDA jumped 42% to $93.7 million, and net income climbed to $19.4 million, or $0.91 per share.

MTY also offers a dividend of $0.15 per share, representing a 1.1% dividend yield. On February 19, MTY also announced the acquisition of the Grabbagreen franchise system.

Should you buy both right now?

Both companies have relied on a number of acquisitions to boost growth in successive quarters. Casual dining chains have struggled to sustain growth, as younger demographics have turned to quick-service chains and take out. Still, investors should expect strong performances from Cara and MTY in 2018 after recent additions. Both offer a solid dividend and come at a potential bargain after an early dip this year.

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