Cara Operations Ltd. Could Hit $30 by Victoria Day

Description

"I love it when a plan comes together."

That's what the former leader of the fictional *A-Team*, led by John "Hannibal" Smith, used to say whenever his team of former U.S. Special Forces successfully carried out a mission to save the day.

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The same could be said by **Cara Operations Ltd.** (TSX:CARA) CEO Bill Gregson when describing the restaurant company's fourth-quarter results.

Quick-service restaurants like **Restaurant Brands International Inc.** have had a very difficult time coping with Ontario's increase in the minimum wage. On several occasions in 2018, I've spoken about Restaurant Brands's inability to properly handle the minimum wage issue, which has led to the company's franchisees dumping the extra wage costs at the feet of front-line staff who serve coffee to Canadians from coast to coast.

A simple solution

The easiest and most sensible solution in this situation would have been to raise prices in Ontario; which is exactly what Cara did to manage its increased costs.

"It's not necessarily across the board on every item," Gregson told analysts. "We've tried to minimize the price increases."

The company has wisely examined every component of its food and labour costs to figure out where it could cut costs without affecting the customer experience. He also suggested that a lack of food inflation has also helped keep gross margin dollars comparable with the same period last year.

Highlights of its Q4 2017 results include a 2.5% increase in its same restaurant sales due to a strong performance in Quebec as well as improvements in Alberta. The company's operating EBITDA and pre-tax earnings were $58.5 million and $37 million, respectively, in the fourth quarter, the highest quarterly profits since it went public in 2015.

Now that Cara has completed the Keg acquisition, it's time to go to work reaching for the company's 2020-2022 top-end goals of $3.7 billion in system sales and $297 million in operating EBITDA.

Including Keg, which adds $600 million in system sales and $23.5 million in annual operating EBITDA, it's within $300 million of its system sales goal and $85 million in operating EBITDA.

No wonder its stock jumped more than 10% on the news.

Oversold, but not for long

Just a few short days before Cara Operations announced its fourth-quarter results, I'd suggested it was one of three oversold stocks that investors should buy.

"I've always thought Cara was a misunderstood stock that's better than its $24 price tag," I wrote March 7. "Now that it's in business with a well-run Keg operations and **Fairfax Financial Holdings Ltd.** holding a majority of the votes, I see $30, possibly by the end of 2018."

After reading its Q4 2017 report, I'm inclined to say it CARA stock could hit $30 by as early as Victoria Day, which is celebrated on May 21 this year.

Mark your calendars!

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