This Bargain-Priced Restaurant Stock Screams Growth!

Description

I love restaurant stocks. They represent the perfect balance between necessity, convenience, and indulgence. We all need to eat, so we may as well go out and buy something to eat that we love.

This is a unique factor that is restricted to food stocks that we rarely see anywhere else. You may crave that burger and fries and have no problem paying for it, but we don't draw that same positive reaction from paying our utility or telecom bills.

Cara Operations Ltd. (TSX:CARA) is a storied restaurant company that owns a myriad of well-known brands, including Milestone's, Kasey's, and Swiss Chalet. The company was formerly known for providing food to airlines, but Cara is exploring a name change to distance itself from that former business.

Here are a few reasons that new and seasoned investors may want to consider investing in Cara.

First, casual dine-in restaurants are becoming more popular, particularly among millennials. The proliferation of online commerce and delivery is entrenching on everything, from classic brick-and-mortar retail to grocery delivery. For the restaurant industry, this means exposure to a wider audience of customers that are willing to try something new but prefer to order from their smartphones and have it delivered.

The Keg deal

Another reason to consider Cara is the company's growth-through-acquisition policy, which has added a myriad of impressive brands to an already massive portfolio. Of all the recent acquisitions by Cara, none have attracted as much attention as the $200 million deal earlier this year to acquire the Keg, bringing the total restaurant count under Cara to 1,365.

The Keg deal is significant for a few reasons. Cara's existing portfolio of brands has few upscale dining options, and the ones that do have reported less-than-stellar results in the past.

In contrast, the Keg's over 100 steak dining rooms have perennially outperformed, which could prove to be a valuable addition for Cara. All Keg locations have witnessed an annual sales bump of 5%, whereas many of Cara's upscale dining options have seen sales-growth figures remain at just 0.9%.

Once the deal is complete, Keg CEO David Aisenstat will continue to lead the Keg and also assume the helm of Cara's upscale dining brands, which includes Milestones and the Bier Markt.

Another key growth point from the Keg deal is expanding deeper into the U.S. market. The steakhouse already has operations in both Phoenix and Dallas, but the Cara deal could provide the necessary muscle to push further into the U.S. market, where the Keg is already outperforming other brands.

Premium casual dining outfits such as the Keg are still insulated from the changing tastes and preferences of consumers that are being felt in other areas, such as Cara's more informal dining brands.

What else can Cara offer?

Most investors may not realize it, but Cara offers a quarterly dividend with a yield of 1.54%. While that yield might not sound like much now, the company has an established record of hiking the dividend and hasn't been coy about continuing to raise it further, with a 5% hike announced in the previous quarter.

Factor in a steadily improving balance sheet and cash flow, a viable expansion and growth plan, and Cara begins to resemble a great long-term investment with huge growth prospects.

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