Looking for a Recipe for Success and Dividend Growth? Take a Look at Recipe Unlimited Corporation (TSX:RECP)

Description

Recipe Unlimited Corporation (TSX:RECP), formerly Cara Operations Limited, has undergone a significant change over the past several years. The company operates across Canada with the majority of its operations active in Ontario, having around 55% of its restaurants in the region. The company owns 19 different brands and 1,382 restaurants. Most of the restaurants, about 85%, are operated as franchises and venture partnerships.

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The company's brands have grown over the years. Swiss Chalet, Kelsey's, and East Side Mario's have long belonged under the company's umbrella with St-Hubert, Burger's Priest, and Pickle Barrel being added more recently. The major change in the company, which led to the name change, was in relation to its merger with Keg Restaurants Ltd. in February 2018. It is difficult to travel far without seeing several of the company's restaurants.

The acquisitions have had a number of effects on the company. Many of the newly acquired restaurants have strengthened the company's geographic footprint across Canada. The acquisition of St Hubert, for example, provided it with an established brand in Quebec — a region to which the company previously had little exposure.

Adding new brands also allowed the company to grow its revenues. Same restaurant sales (SRS) growth, considered to be an important indicator of restaurant success, was 2.1% year over year in Q1 2018, and overall gross revenue increased by 24 %. Some of this growth was attributed to proceeds from newly acquired companies, such as increased contributions from the Pickle Barrel and The Keg.

The stock yields a modest, but growing dividend of around 1.5% at current prices. This yield includes the 5% dividend increase in the most recent quarter. The company asserted that growing cash flow solidified the case for this raise and could provide opportunities for more raises in the future. While the financials are looking decent, there are two major risks to consider before buying the stock.

The first risk is the possibility of a recession in Canada. As was seen in the Alberta economic downturn accompanying the oil price collapse, the slower economic activity can greatly impact restaurant sales and profitability, as Recipe Unlimited's share price was negatively impacted as a result of the downturn at that time. While the company has been making acquisitions to diversify its business throughout Canada, there is always the possibility that a general recession may strike the country.

The second risk to consider is Recipe Unlimited's debt levels. Making these acquisitions, maintaining the restaurants, and providing advertising can negatively impact the balance sheet as more leverage is utilized. While the strategy of diversifying through expansion and acquisition can help provide stability, increased indebtedness can make balance sheets fragile. At present, Recipe Unlimited's cash flow and revenue growth appear to be strong; the strategy seems to be paying off.

Recipe Unlimited is a play on the Canadian economy. The company owns many restaurant chains and brands that provide diversified income to investors. The dividend, while small, is growing and should continue to grow with Recipe's free cash flow and revenue.

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