



2020 Stocks: This 1 Stock Could Gain 415%!

Description

Recipe (TSX:RECP) — formerly Cara Operations Limited — is a Canadian full-service restaurant operator and franchisor.

The company has a [variety of brands](#) spanning across Canada and caters to a variety of demographics. This includes The Keg, Milestones, The Burger's Priest and the Bier Markt, to list but a few.

The company reports a market capitalization of \$1.07 billion with a 52-week high of \$28.73 and a 52-week low of \$18.83.

Intrinsic price

Based on my calculations using a discounted cash flow (DCF) valuation model, I determined that Recipe has an intrinsic value of \$97.83 per share.

Assuming less than average industry growth, the intrinsic value would be \$93.02 per share and higher than average industry growth would result in an intrinsic value of \$103.27 per share.

At the current share price of \$18.83, I believe that Recipe is substantially undervalued. Investors looking to add a food services company to their TFSA or RRSP should consider buying shares of Recipe. I would suggest following the stock into 2020, as a bear market would allow investors to buy shares of Recipe at a discount.

Recipe has an enterprise value of \$6 billion, representing the theoretical price a buyer would pay for all of Recipe's outstanding shares plus its debt.

One of the good things about Recipe is its acceptable leverage with debt at 30.6% of total capital versus equity at 69.4% of total capital.

Financial highlights

For the nine months ended September 29, 2019, the company reports a mediocre balance sheet with negative retained earnings of \$55 million.

This is not a good sign for shareholders, as it indicates that the company has had more years of cumulative net loss than net income. That said, Recipe has reduced its negative retained earnings from negative \$81 million to negative \$55 million in a span of one year which is commendable.

The company reports a solid cash balance of \$34 million. Further, it has access to a \$550 million credit facility with a \$250 million accordion feature. The facility is \$253 million drawn for a utilization rate of 46%. This is a good sign for investors as the company still has ample liquidity to fuel future growth.

Overall revenues are up noticeably from \$727 million in 2018 to \$787 million in 2019 (+8%) driven by sales at corporate restaurants.

Due to an increased COGS and SG&A, operating income is down to \$84 million from \$101 million during this period in 2018. Despite this, the company reported a solid nine months with pretax net income of \$67 million.

The company is committed to its aggressive growth strategy and recently added Anejo and Blanco Cantina to its portfolio. Recipe paid \$5 million for two Mexican-themed restaurants, growing its restaurant base while diversifying its offerings.

Management takes a prudent approach to debt management, as evidenced by its \$260 million pay down of long-term debt in 2019 (\$65 million pay down in 2018) that's offset by draws on its credit facility of \$390 million and \$104 million in 2019 and 2018, respectively.

Foolish takeaway

Investors looking to buy shares of a food services company should consider [buying shares](#) of Recipe. Despite its negative retained earnings, the company has a solid cash balance with the majority of its credit facilities unused, allowing it to fuel future growth.

Based on a discounted cash flow model, I calculated Recipe's intrinsic value to be \$97.83, which represents a material premium to the \$18.83 at which it is currently trading at writing.

With a bearish 2020 on its way, investors should wait for an ideal time to purchase shares of Recipe to maximize gains.

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