This Stock Is Up 2,396%… and Still Has Room to Run

Description

Whenever investors want a go-to name in Canada's restaurant industry, the choice is usually **Tim Hortons** (TSX: THI)(NYSE: THI). And why not? Tim Hortons has a dominant position in the Canadian fast dining market. Millions of Canadians are practically addicted to their morning cup of Tim's coffee. The company is well represented coast to coast. It's even aggressively expanding into the United States, planning up to 800 new locations south of the border.

And yet, there's a company that has a better growth profile, trades at a similar forward P/E ratio, and has a rock-solid balance sheet. This company's shares are up 2,396% over the past decade, growing from just a small company trading on the TSX Venture Exchange to a true player in Canada's hyper-competitive casual dining industry. Considering what this company has accomplished, it gets very little attention.

I'm talking about **MTY Food Group** (TSX: MTY), the Quebec-based food court giant. The company has brands you'll find in almost every food court in Canada, including Mr. Sub, Jugo Juice, Country Style, Extreme Pita, Tiki-Ming, and Thai Express, among many others. In total, the company has more than 30 brands under its umbrella, and is constantly on the prowl for more.

Thanks to all those acquisitions, MTY's growth has been spectacular. Revenue grew from $51.5 million in 2009 to $101.4 million in 2013, essentially doubling in five years. Earnings grew from 64 cents per share to $1.34 in the same time. The number of franchised stores under the company's banners will cross 3,000 sometime in 2014. MTY has quietly become a powerhouse in Canadian fast food.

Like competitor **A&W Revenue Royalties Income Fund** (TSX: AW.UN), MTY owns very few of the actual physical locations. It's in the enviable position of sitting back and collecting a royalty on every sub, cup of coffee, and smoothie that franchisees sell. All it has to do is keep these owner-operators happy and it can continue to skim its share off the top line.

Canada is full of restaurant chains with fewer than 100 locations, exactly what the company looks to acquire. It recently announced its first foray into sit down dining, acquiring 14 Madison New York Grill and Bar locations. While the purchase wasn't much in the scheme of things — the company paid just

$13 million — it signals an entry into a new segment of the market. Higher scale dining could very well be the company's next big growth area.

MTY's balance sheet is a pillar of strength. The company is sitting on just $7.6 million worth of debt and assets of over $140 million. The ability to borrow is important for any serial acquirer, and MTY should be able to easily raise the capital needed to do a larger acquisition.

The company consistently makes acquisitions that immediately add to profits. In addition to the last five years of impressive profit growth, analysts expect 9% annual profit growth in 2014 and 2015. And that's without the benefit of a major acquisition. MTY is a prudent user of capital, making smart purchases rather than growing for the sake of growing. Its 37% operating margins attest to that.

Foolish bottom line

Over the past decade, MTY has been one of Canada's best performing companies. It has been on a blistering acquisition spree, gobbling up many terrific brands. It participates in all the upside of a hard-working franchisee, with very limited exposure to the downside. If a franchisee fails, the company can just plunk another operator in his place.

Considering the fragmentation that still exists in Canada's fast food and sit-down restaurant markets, the company will have opportunities to bring more brands into the fold. MTY still has plenty of growth potential going forward.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:AW.UN (A&W Revenue Royalties Income Fund)
2. TSX:MTY (MTY Food Group)

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