



Find Dividends in Your Local Mall Food Court

Description

Take a walk around a mall food court and you won't have to look too far to find an **MTY Food Group** ([TSX: MTY](#)) banner of one kind or another. MTY Food's brands can also be found in street front shops and in convenience stores/gas bars, cinemas, and other venues. I believe MTY Food warrants further study as a possible addition to a portfolio for the following reasons.

Dividends

The company announced back in January that it would increase its quarterly dividend to 8.5¢ per share from 7.0¢ per share. This represents the third consecutive annual increase of the dividend following the commencement of its dividend policy in 2010.

An extensive brand portfolio

The company franchises and operates quick-service restaurants (QSRs) under an array of brands. These include Tiki-Ming, Panini Pizza Pasta, Cultures, Thai Express, Vanellis, TCBY, Yogen Früz, Country Style, Buns Master, Jugo Juice, Mr. Sub, SushiGo, Extreme Pita, Mucho Burrito, and ThaiZone, among many others.

Each brand is unique in its offerings and some are iconic Canadian brands, such as Mr. Sub. The first Mr. Sub outlet opened in Toronto in 1968 and sold its first franchise in 1972. This brand is synonymous with Canadian fast-serve sandwiches.

A focus on growing its network

In 2013, MTY Food invested more than \$63 million to add strength to its brand portfolio. In September 2013 it acquired the assets of Extreme Pita, PurBlendz and Mucho Burrito, with a total of 305 stores. In September it also acquired 80% of the assets of the ThaiZone chain (25 stores; three mobile restaurants).

This month, MTY Food announced that its wholly owned subsidiary, MTY Tiki Ming Enterprises, entered into a binding agreement to acquire some of the assets of a group of companies that own and

operate the Madison's New York Grill & Bar concept in Canada.

Increased net income

In 2013, MTY Food increased its net income by 17% (\$25.7 million; \$1.34 per share). This increase is primarily because of its increase in EBITDA (Earnings Before interest, taxes, depreciation and amortization).

3 big challenges MTY Food and all quick-service restaurants are facing

Growing same-store sales: Opening modern locations is vital to garnering revenue from new markets. The greater challenge is to extract more sales from existing locations. MTY Food's same-store sales growth declined by 2.0% during 2013.

How are others in mall food courts and elsewhere faring? For the first quarter of 2014, **McDonald's** ([NYSE: MCD](#)) saw same-store sales globally grow slightly by 0.5%. For the fourth quarter of 2013, **Burger King** (NYSE: BKW) saw same-store sales increase 1.7%. This includes growth of 0.2% in the United States and Canada.

Controlling operating costs: For its fiscal year 2013, MTY Food's operating expenses increased by 4% to \$62.1 million. The company noted that it would continue to emphasize the continuous improvement of its operations. MTY Food also has its food processing business. Its plant produces products ranging from ingredients and ready-to-eat food sold to restaurants or other food processing plants, to microwavable meals sold in retail stores. Expenses for food processing increased by \$2.1 million in 2013.

McDonald's said that for Q1 2014 it incurred higher labor, commodity, and occupancy costs. One way Burger King is cutting restaurant expenses is through re-franchising company-owned restaurants. It is selling more restaurants to franchisees to lessen overhead costs. Consequently, it collects franchise fees instead of sales.

Intense price competition

Today, the nature of the business is driving revenue through value-menu offerings. McDonald's and Burger King are doing it with many items priced below \$2.00. MTY Food's Mr. Sub locations offer a sub of the day: \$6.00 for a specific 12-inch sub or \$4.00 for a specific 6-inch sub. For March/April 2014, Mr. Sub is offering a 6-inch Spicy Chicken Parm for \$2.49 with the purchase of a combo. A value menu is like a typical loss-leader — companies hope consumers will buy other items once at the counter. That's why those chocolate-chip cookie counter displays are staring at you while you order a value item.

Foolish bottom line

MTY Food is garnering revenue across the taste spectrum with its diverse restaurant offerings. It's not beholden to one menu type in a fickle industry with consumers' tastes always shifting. It has enough brands to ride the waves of these shifts, despite the challenges it and all quick-serve restaurants face.

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