4 Reasons MTY Food Group Should Be on Your Radar

Description

If you've eaten in a mall food court in recent years, chances are you've encountered one of the brands that **MTY Food Group** (TSX: MTY) has under its umbrella. With names such has Thaiexpress, ExtremePita or Cultures, the company's 27 brands can cater to every consumer taste.

Here are four reasons why you should keep an eye on MTY Food Group when it reports earnings this Thursday.

One of the best operators in the business

It is no secret that the fast food industry is a cutthroat business with razor thin margins, yet MTY Food Group manages to keep an operating margin over 30% while growing sales at an astounding 23.4% compounded annual growth rate over the last five-year period. Usually, when a company has such fast growth it tends to do so by sacrificing profitability, but MTY Food Group is not your usual company. Even with all that growth, the company posted a net income margin of 24.6% last quarter and was free cash flow positive last year.

A balance sheet ready for acquisitions

With such strong cash flow from its existing restaurants, MTY Food Group has no need to use debt for its everyday expenses and as such can take advantage of the strength of it to acquire struggling franchises and bolster its offerings. Total debt stands at $4 million as of the last quarter essentially nonexistent when considering the amount of cash that flows to its coffers every quarter. There is no doubt that founder Stanley Ma will acquire additional brands in the future.

Protection from changing tastes through diversification

Unlike traditional fast food companies like **McDonald's** (NYSE: MCD) or **Chipotle Mexican Grill** (NYSE: CMG), MTY Food Group does not have only one menu to offer its customers. This variety allows MTY Food Group to protect itself from the ever-changing taste of consumers. Whether healthy salads are in favor or not, it can benefit from trends without having to reorganize its entire offering.Such diversification helps ensure a steady flow of sales for the company so long has people are eating.

Management has skin in the game

Founder and current CEO Stanley Ma owns more than 30% of all shares outstanding. While having management as shareholders is not a prerequisite to buy a stock, when the founder owns more than 30% of the company it helps ensure that the senior executives work to enhance value.

MTY Food Group is not cheap by any metric. With a price-to-earnings ratio of 22 and price-to-sales ratio of 5.4, the market recognizes the excellent track record of management in recent years. That said, so far this year the stock is down 12% a stark contrast to the **S&P/TSX 60,** which is up 12%. It seems that Bay Street's expectations are starting to become unrealistic creating a situation that could cause the stock price to drop on earnings. For long-term investors, an attractive opportunity might arise.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:MTY (MTY Food Group)

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