An Outstanding Restaurant Franchiser for Growth

Description

Growth stocks can greatly boost the returns of your portfolio. The average market returns have historically been 10% with inflation included.

You might not have heard of **MTY Food Group Inc.** (TSX:MTY) because it's a relatively young company, having traded on the Toronto Stock Exchange for just a little over six years.

Between the end of August 2010 and 2016, MTY Food Group's average annualized rate of return was 25%, which equated to total returns of just over 280%. In that period, dividends only contributed a little over 4% of its total returns.

The business

MTY Food Group is one of the largest franchisers in the Canadian restaurant industry. Last year the company exceeded $1 billion of sales for the first time. For 35 years, it has operated quick-service restaurants and grown via acquisitions and strategic alliances.

MTY Food Group made its first acquisition in 1999. Today, it has about 5,500 stores under multiple banners, including, but not limited to, Tiki Ming, Cultures, Sukiyaki, La Cremiere, Panini Pizza Pasta, Villa Madina, Croissant Plus, Thai Express, Kim Chi, Yogen Fruz, Koya Japan, Vie & Nam, Tandori, Tutti Frutti, Taco Time, and Valentine.

Consistent returns

MTY Food Group's return on equity has been consistently in the double digits–between 16% and 27% in the last decade. In the last five years, it has been between 16% and 23%.

Its proven ability to generate returns from shareholder equity has led to strong dividend growth in the past five years, in which the company grew its dividend per share at a compound annual growth rate of 54.8%. However, that percentage is biased because it includes its first dividend hike, which was exceptionally high.

To put things in perspective, its three-year average dividend-growth rate was 22% and its dividend hike for this year was 15%. Its payout ratio is about 26%.

Recent developments

In July MTY Food Group announced that it has acquired all of the shares of Kahala Brands, which was its largest acquisition yet, totaling about US$310 million.

Kahala operates 18 brands in 27 countries with about 2,800 locations. The transaction will result in about 5,500 franchised and corporate locations and is expected to double MTY Food Group's annual sales to $2 billion.

In the news release, CEO Stanley Ma stated, "This is a turning point in MTY's history. MTY now has a solid, profitable and scalable platform from which to grow its U.S. and international operations. Moreover, a sizeable, dynamic and talented group of employees is now joining the MTY family. This transaction opens the door to endless opportunities for MTY and its shareholders."

Swap current income for growth

You'll notice that MTY Food Group offers a small dividend yield (of 1.1%) compared to the typical companies one would buy for dividends such as **Bank of Nova Scotia** and **Rogers Communications Inc.,** which yield 3-5%.

However, due to MTY Food Group's high-growth track record, it has been increasing its dividend at a double-digit rate that more mature dividend-growth stocks such as Bank of Nova Scotia and Rogers can't provide.

Essentially, by investing in MTY Food Group, you're trading current income for growth. That is, you expect most of your returns to come from price appreciation and your income stream to grow at a faster pace than average.

Conclusion

Despite being an excellent company to boost growth in a diversified portfolio, MTY Food Group has had a price run-up since the announcement of the Kahala acquisition.

As a result, at below $43 per share, MTY Food Group trades at a forward price-to-earnings ratio (P/E) of more than 24.2, which is a tad expensive.

Value-conscious investors should wait for a pullback to at least $37 for a maximum forward P/E of 21 or wait for some sideways price action (so earnings can catch up) before investing.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:MTY (MTY Food Group)

Category

1. Dividend Stocks
2. Investing

Date
2025/09/07
Date Created
2016/09/08
Author
kayng