



## Why This Growth Stock Returned Nearly 70% in the Last Year

### Description

If you'd bought **MTY Food Group Inc.** ([TSX:MTY](#)) shares 12 months ago, your investment would have grown nearly 70%. That's a phenomenal return using any standard!

We shall explore why MTY Food Group has been such a great investment and determine if it's still a good investment going forward.

First, here's an overview of its business.

### Business overview

MTY Food Group franchises and operates quick-service restaurants primarily in North America. Its history goes as far back as 1979.

At the end of fiscal 2016, it had 5,681 operating locations, of which 98.6% were franchised. Last year, its system sales were \$1.48 billion.

By acquiring Kahala Brands and BF Acquisition Holdings in 2016, MTY Food Group has strengthened its U.S. presence. It increased the number of its restaurant concepts from 45 to 65 and will allow the company to increase its concept offerings across North America.

MTY Food Group has 48% of its locations in the U.S. and 43% in Canada. You'll recognize many of its brands, including but not limited to Country Style, Croissant Plus, Extreme Pita, Jugo Juice, Koryo, Koya, Manchu WOK, etc.

sushi not found or type unknown

### Excellent management execution

Other than growing by strategic acquisitions, MTY Food Group has also developed multiple quick-service restaurant concepts, including banners, such as Tiki-Ming, Sukiyaki, Kim Chi, and others.

Management's excellent capital allocation is evident by its consistently high returns on equity (ROE).

Since 2007, MTY Food Group has achieved a ROE of 16% or higher — in seven of the 10 years, its ROE were 22% or higher.

A \$10,000 investment from five years ago would have more than tripled to \$33,400 for an annualized return of 27%!

### **Multi-year consolidation**

MTY Food Group shares had a strong run-up in 2013 to a price-to-earnings ratio north of 25. At that time, its share price ran ahead of earnings.

As a result, the shares had a multi-year consolidation period from late 2013 to early 2016 in \$30 levels. Furthermore, the company delivered strong results in fiscal 2016 with normalized earnings-per-share growth of 33.7%.

The price consolidation coupled with the company's double-digit growth caused the shares to rise significantly by 67% in the last year.

### **A growing dividend?**

MTY Food Group has raised its dividend for six consecutive years; its dividend has doubled in the last five. That said, the company did not raise its dividend as expected in Q1 2017. So, perhaps, management would like to focus more on growth for now.

At about \$52, the company offers a safe yield of 0.9% with a payout ratio of about 21% based on its normalized earnings per share.

### **Investor takeaway**

MTY Food Group shares have had a tremendous run in the past 12 months. Last year, it made its biggest acquisition of Kahala Brands, totaling about US\$310 million, which helped boost its sales and earnings with double-digit growth.

However, in doing so, MTY Food Group also took on an above-average level of debt. Its financial leverage is now about 2.7 compared to the 1.3 level in the last decade.

So, it will take some time for the company to deleverage its balance sheet to normal levels. Before then, it's unlikely it'll make another big acquisition.

It's hard to say where shares will go this year after its big run-up. That said, I would not bet against management, as it has shown the ability to generate high returns for shareholders.

So, investors with a long-term investment horizon of at least three to five years should consider the growth company, especially on any price dips or if the share price consolidates again.

### **CATEGORY**

1. Dividend Stocks
2. Investing

## POST TAG

1. Editor's Choice

## TICKERS GLOBAL

1. TSX:MTY (MTY Food Group)

## PARTNER-FEEDS

1. Msn
2. Newscred
3. Yahoo CA

## Category

1. Dividend Stocks
2. Investing

## Tags

1. Editor's Choice

## Date

2025/09/08

## Date Created

2017/03/01

## Author

kayng

default watermark

default watermark