Growth Investors: This Restaurant Stock Saw its Sales Grow 40% Last Quarter!

Description

The success of many restaurants is influenced heavily by the amount of disposable income that households have, which typically increases when the economy is doing well. The industry is very stable, and as populations and economies grow, there will only continue to be more opportunities for expansion. However, with that appeal comes lots of competition in the industry, and the biggest struggle for a new restaurant is often being able to set itself apart from the crowd of competitors.

I'm going to take a look at a big player in the industry that owns nearly 50 different brands spanning multiple countries and that recently released its earnings to see if it could be a good time to invest in this growing company.

MTY Food Group Inc. (TSX:MTY) released its third-quarter results earlier this month, which saw the company post an earnings per share of $0.71, down from $0.82 a year ago, despite a strong increase in the company's top line, which saw sales rise nearly 40%. However, increased depreciation and interest charges eroded a lot of the company's earnings, and comparable figures were also stronger a year ago, as the company achieved a gain of $8 million in 2016.

The company has grown via acquisitions

MTY has seen a lot of its sales growth come by way of acquisitions, and in the third quarter alone, the company had completed two acquisitions, which added to its Canadian locations, while also allowing the company to diversify its offerings. MTY also announced just last month that it was acquiring yet another Canadian chain of franchised restaurants: Dagwoods Sandwiches and Salads. Despite all these Canadian acquisitions, 47% of the company's locations are in the U.S. while just 44% are in Canada. MTY has been able to pay for the bulk of these transactions with cash on hand; the three transactions totaled $32 million, with over $22 million coming from the company's cash account.

Strong cash on hand helps MTY minimize the need for debt

The importance of having strong cash flow is highlighted by the flexibility with which MTY is able to take on acquisitions without burdening its financials with high levels of debt. The danger with rising debt, especially while interest rates are rising, is that interest costs could limit the opportunities a company can take on since much of its free cash will have to go to paying down loans.

Although MTY has seen its debt load increase from just $18 million in 2013 to $253 million in the last fiscal year, a debt-to-equity ratio of 0.81 suggests the company only has a moderate level of debt on its books. By comparison, **Restaurant Brands International Inc** (TSX:QSR)(NYSE:QSR) also has been expanding its reach across the world and has seen its debt reach a multiple of more than 2.2 times its equity. The company that owns the iconic Tim Hortons brand has also seen its debt rise significantly, with just $3 billion in debt in 2013 rising to over $11 billion in the most recent quarter.

Is the stock a buy?

Year to date, MTY's stock has lost almost 6% of its value, but with a price-to-earnings multiple of just 16, it presents a well-valued stock with a lot of potential for future growth.

CATEGORY

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Date
2025/07/05
Date Created
2017/10/16
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