



Why This Delicious Growth Stock Popped +6% on Thursday

Description

I've forgotten about my **MTY Food Group Inc.** ([TSX:MTY](#)) shares, because the stock doesn't usually move much. So, I was surprised that it popped +6% on Thursday. I think now is a good time to review the company.

The business

MTY Food Group was established in 1979, and it franchises and operates quick-service restaurants primarily in North America. At the end of the third quarter, it had 5,487 operating locations, of which almost 98.7% 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 and further diversified its range of offerings. Geographically, MTY Food Group has 47% of its locations in the United States, 44% in Canada, and 9% outside North America.

You'll recognize many of its brands, which are often found in the food courts of malls. The brands include but are not limited to Country Style, Croissant Plus, Extreme Pita, Jugo Juice, Koryo, Koya, Manchu WOK, etc.



Outstanding management execution

The management has been an excellent capital allocator, mostly reinvesting its earnings and cash flow back into the business and making accretive, strategic acquisitions.

Since fiscal 2007, the company has achieved returns on equity (ROE) of 16-27%. The trailing 12-month ROE is just north of 20%, which is very good.

This has translated to real value for shareholders. A \$10,000 investment from three years ago would have grown to +\$15,000 for an annualized return of nearly 15%!

Since the end of fiscal 2016, MTY Food Group's [store count](#) had reduced by about 3.4%, which is a good thing because there's no point keeping locations that are below par.

Why the stock popped +6% on Thursday

There could be many possible reasons. The most recent press release, which came out on Tuesday, indicated that MTY Food Group agreed to make another acquisition — The Counter and Built network.

Stanley Ma, the chairman of the board and chief executive officer of MTY Food Group, said that the company has been looking for "potential additions to its strong portfolio of brands." And The Counter and Built network was a good fit. It offers "trendy hamburgers and other craveable foods."

This acquisition will add 44 locations, of which 93.2% are franchised. In the last 12 months, The Counter and Built network generated more than US\$81 million in system sales.

The management is a value investor. And from the company's track record, investors can expect new acquisitions to add value and generate good returns in the long run.

Investor takeaway

That said, investors need to [focus on value to get a good return](#) from investing in MTY Food Group. After the pop to ~\$54.70 per share, the company trades at a price-to-earnings multiple of 24.7, which isn't cheap. But then again, it's rare to find the stock at a bargain.

MTY Food Group makes a nice addition as a long-term growth investment to a diversified portfolio. Interested investors should consider buying it on any meaningful dip and average in to a position over time.

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