



## 2 Stocks With Potential to Outperform and 1 That Requires Growth

### Description

Not all equity investments need to be disruptive business or high-flying tech, although staying power from strong business is paramount. Invest in business that is not easily going away. Would you buy the whole company if you could? For example, I would not hesitate to own all of **Alphabet Inc.**

I'm revisiting these [two](#) companies with recognizable brands with this question in mind.

**Cineplex Inc.** ([TSX:CGX](#)) shareholders had a [tough](#) 2017. Let's consider the pros and cons:

#### Pros

As a contrarian, now would be the time to buy this beaten-up stock. The business tends to be very cyclical, and it would be a fairly safe bet to buy shares as a swing play. Some analysts believe that Cineplex is about 16% undervalued. A double-digit gain is appealing, but the question is, how long can Cineplex stay undervalued before you get the potential return?

#### Cons

Cineplex has been cash flow negative for the last three quarters. Although negative cash flow is not unusual for Cineplex, the three consecutive quarters is an anomaly, since this has never happened before.

Although revenue has climbed consistently, Cineplex has not found a way to efficiently turn this into earnings. The EBIT margin — a sign of business efficiency — has dropped within all-time lows. Return on equity is now in the single digits, which is unusual for this company.

#### Take home

I would not want to own *all* of Cineplex. I'm not alone. Sentiment is down, so only good news will move the share price. Here's some free advice: if you have cash ready to invest, it might be wise to put cash into a whole market index fund and take the guesswork out. My current favourite is **Vanguard FTSE Global All Cap ex Can ETF** ([TSX:VXC](#)) and have a limit order for VXC at \$36 per share. Current

market volatility means that I will likely fill the order soon, which would be great, as I'll only feel compelled to check on a global market ETF once in a blue moon.

**MTY Food Group Inc.** ([TSX:MTY](#)) is a consolidator of food brand restaurants. I *might* want to own all of MTY. This growth stock company recently acquired **Invescor Restaurant Group Inc.** (TSX:IRG), adding brands like Baton Rouge to the arsenal, which should provide more tailwinds.

The food business has been weak in recent years. Food apps that allow convenience of ordering with a smartphone were meant to be disruptive, but they have mostly been a flop. MTY will be unaffected by food delivery apps for these reasons. MTY's locations are often in high-foot-traffic locations, like malls, where delivery is not needed. The food delivery concept will, however, enter a next phase towards viability, which could be a kitchen and the app in a box, as is the case with the British company Deliveroo.

By the numbers, MTY's earnings per share have been growing at over 20% per year since 2014, during which time the share price has only increased 16% per year, so it's not keeping up. I'm noting the stock hitting a support level on the chart and using the future earnings expectations to conclude that MTY is significantly undervalued.

## CATEGORY

1. Investing

## TICKERS GLOBAL

1. TSX:CGX (Cineplex Inc.)
2. TSX:MTY (MTY Food Group)

## PARTNER-FEEDS

1. Msn
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