



## A Superb Millionaire-Maker Still Growing Strong

### Description

**MTY Food Group** ([TSX:MTY](#)) has been a superb investment. From a penny stock in 2001, it has gone on to deliver an annualized rate of return of more than 30%. In 18 years, a \$10,000 has transformed into +\$1.4 million!

Even an investment in 2007, before the last recession, would still have been a nine-bagger, turning \$10,000 into more than \$91,000, equating more than 20% per year of total returns.

However, like any other stock on the market, MTY Food Group stock isn't without volatility. On Frida, the [growth stock](#) declined by +12%.

Before exploring whether it's a buying opportunity, here's some background on the long-term outperformer.



### The business

MTY franchises and operates quick-service restaurants primarily in North America. It has a proven track record of successful acquisitions — acquiring and integrating more than 50 brands over the years.

You'll often find its brands at food courts, which are often packed around chow time. You'll likely recognize some of its brands, including Country Style, Croissant Plus, Extreme Pita, Jugo Juice, Koryo, Koya, Manchu WOK, Thai Express, etc.

MTY's network has more than 5,700 locations, of which about 98% are franchised. Roughly 44% of the locations are in the United States, 47% are in Canada, and 9% are abroad. So, a strong U.S. dollar against the Canadian dollar will be helpful to the company's bottom line.

### **A free cash flow generating machine**

MTY is an absolute free cash flow generating machine! In the last four reported quarters, it generated nearly \$97 million of cash flow. And it only had capital spending of \$6.5 million in that period.

This resulted in free cash flow of more than \$90 million! The stock pays out about 15% of its cash flow as dividends. The rest of the cash flow is pretty much used to service debt or grow the business via strategic acquisitions.

MTY's latest acquisitions include South St. Burger and Casa Grecque. South St. Burger is a chain of gourmet burger restaurants with 26 franchised and 14 corporate locations that are mostly in Canada. The network has annual system sales of +\$28 million.

Casa Grecque is a chain of bring-your-own-wine restaurants founded 38 years ago. The chain had +\$45 of system sales in 2017 and comprises 31 franchised restaurants in Quebec.

### **Investor takeaway**

MTY is a high-margin business with a business model that simply works. Its recent net margin was 33.4%. The stock trades at a forward P/E of under 19, which is a pretty full valuation to pay for the growth stock.

Interested investors who want a piece of the wonderful business can nibble here. However, it'll be a safer entry point to buy MTY after it has consolidated for awhile. A dip to the high-\$40s to mid-\$50s would be [a great buy](#).

### **CATEGORY**

1. Dividend Stocks
2. Investing

### **TICKERS GLOBAL**

1. TSX:MTY (MTY Food Group)

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