Canada Revenue Agency: Accumulate Unrealized Gains and Reduce Taxes by Holding This High Growth Stock Forever

Description

The best way to reduce taxes is to buy great companies, accumulate unrealized gains and hold the stock forever. One company that helps achieve that objective is **MTY Food Group Inc** (TSX:MTY), which franchises and operates quick service and casual dining restaurants under several banners.

MTY has 5,984 locations in operation, of which 5,919 were franchised or under operator agreements; the remaining 65 locations were operated by MTY.

The company is fairly valued with a price to earnings ratio of 18.67, price to book ratio of 2.09 and market capitalization of 1.36 billion. Low cost debt is used opportunistically to fund acquisitions and the company has a debt to equity ratio of 0.87. The company has excellent performance metrics, with an operating margin of 24.17% and a return on equity of 11.57%.

MTY's locations can be found in malls and office tower food courts and shopping malls, street fronts and non-traditional places within airports, petroleum retailers, convenience stores, cinemas, amusement parks or retailers shared sites, hospitals, universities and food-truck carts.

The street-front locations operate primarily from April to September and the other banners generally operate year-round.

Revenues from franchise locations are generated from royalty fees, franchise fees, sales of turnkey projects, rent, sign rental, supplier contributions, gift card breakage and program fees and sales of other goods and services, including those generated by products sold at various retailers.

Operating expenses related to franchising include salaries and general and administrative costs. Revenues from corporate-owned locations include sales generated from corporate-owned locations. Corporate owned location expenses include the costs incurred to operate corporate owned locations.

Last year, MTY completed five transactions, investing $325 million and adding 702 locations and bringing system sales to $2.8 billion for 2018.

MTY acquired Imvescor Restaurant Group Inc and expanded into the casual dining segment of the restaurant industry. Imvescor's strong performance since the acquisition drove the 36% growth in EBITDA realized during 2018. MTY's earnings are of high quality, as is evidenced by a high conversion rate of EBITDA into operating cash flows.

During 2018, the consolidation of the restaurant industry accelerated and acquisition prices were sky high. MTY exercised discipline and did not overpay when prices rose past the company's comfort zone. The company's commitment to financial discipline and patience is incredible.

The company appears incapable of overpaying for acquisitions and is prepared to remain on the sidelines when prices are expensive.

Over the years, MTY has shifted from being predominantly in food courts to a more diversified store base. In 2016, the company entered the U.S. market with a sizeable acquisition that made the company's presence robust and durable.

In the past two years, MTY has approached the casual dining with increased intensity and has further diversified the company's portfolio.

Despite the increasingly competitive North American restaurant industry amid fast changes in the growth of meal kits delivered at home, MTY believes that this would be an opportunity to flourish for restaurants that provide the best food, stay ahead of food trends and offer the greatest value.

The company is focused on improving customers' experience and helping franchise partners succeed in a highly competitive environment.

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Date
2025/09/09
Date Created
2019/11/23
Author
nikhilwaterloo