



Contrarian Investors: 1 Canadian Stock To Buy in March 2020

Description

Coronavirus fears have battered the stock market. It doesn't look like the virus is going away anytime soon, and it doesn't look like the markets are going to turn bullish either. So if times are tough, look for companies that have survived tough times previously.

MTY Food Group ([TSX:MTY](#)) is one such company. This quick-service restaurant company has several brands like Big Smoke Burger, Thai Express, Country Style, Groupe Valentine, Vanelli's, Extreme Pita, and Cultures, La Premiere.

MTY increased its earnings during the last recession. The company reported its fourth quarter and annual numbers for 2019, and surprise, surprise, earnings were up.

The numbers game

Annual sales for 2019 came in at \$551 million up from \$412.3 million in 2018. This was largely because of the five acquisitions MTY made in 2019, including Allô! Mon Coco, Yuzu Sushi, South Street Burger, Casa Grecque and Papa Murphy's, which has been one of the largest acquisitions in the company's history.

It also completed the acquisition of 70% of Turtle Jack's in early 2020. With these recent acquisitions, MTY system sales are now almost evenly split between Canada and the US.

Fourth-quarter EBITDA increased 30% to reach a historical high of \$43 million compared to \$33 million for the same period last year. In the fourth quarter of 2019, MTY generated cash flows from operating activities of \$37.9 million compared to \$30.5 million last year. For the full year, cash flows from operations were \$113 million, surpassing the \$100 million mark for the first time in MTY history.

Thanks to the acquisitions (Papa Murphy's in particular), for the full year, MTY acquired 1,644 locations, opened 303 new locations and closed 550. The company finished the fourth quarter with 7,373 locations.

System sales for the fourth quarter were up 45% to \$1.02 billion. The increase is primarily attributable to the recent acquisition of Papa Murphy's, which generated 25% of MTY sales during the fourth quarter. Network sales grew by 30% to reach a historical high of \$3.6 billion, surpassing the \$3 billion mark for the first time.

Whistleblower effect

The results should give investors a great deal of comfort given that they are out in the aftermath of whistle blower allegations. MTY was supposed to release results earlier on February 13, but [certain allegations](#) made by an active employee led the company to postpone them.

"Given the timing of the allegations, it was decided by the Board of Directors to be prudent and take the additional time available to compile and review the information. Although we cannot give details on the allegations, we can confirm that the allegations are baseless and the matters raised are all topics that MTY had evaluated and dealt with in the past.

We were able to confirm that our positions and judgments were reasonable and as such had no impact on our results and financial statements," said Gary O'Connor, Chairman of the Audit Committee on February 24 when the results were released.

However, the allegations cause MTY stock to drop by over 13%. A smart investor could view this development as a blessing in disguise that allows them to pick up shares at a cheaper rate.

MTY is currently trading at \$51.28 and analysts have given it an average target price of \$62.25. That's an upside of over 21%.

CATEGORY

1. Dividend Stocks
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1. TSX:MTY (MTY Food Group)

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