2 TSX Stocks With Strong Upside As the Economy Reopens

Description

With the reopening of the economy, some **TSX** stocks could increase more than the others and outgrow the broader markets. Consider buying these two TSX stocks for substantial gains in the coming quarters.

MTY Food Group

MTY Food Group (TSX:MTY) remains well positioned to gain from the gradual reopening of the economy. The group operates quick-service and casual dining restaurants through 80 banners and 7,300 locations.

Investors should note that the COVID-19 pandemic had minimum impact on MTY Food Group's first-quarter performance. The group posted healthy same-store sales growth. Meanwhile, its profitability and free cash flows remained strong.

MTY Food Group's revenues soared 41% in the most recent quarter, thanks to the strength in its base business and incremental sales from acquisitions. Meanwhile, its EBITDA and net income increased by 45% and 29%, respectively.

While its first quarter was strong, temporary restaurant closures and dip in traffic could hurt its second-quarter results. However, MTY Food Group is likely to bounce back strongly as the economy begins to reopen. I expect same-store sales to increase in the second half of the year, reflecting an increase in traffic. Moreover, the company should benefit from its recent acquisitions.

MTY Food Group stock is down about 36% so far this year and looks attractive on the valuation front. MTY Food Group stock trades at next 12-month price-to-earnings ratio of 17.7, significantly lower than the industry average of 30.0.

Also, MTY Food Group stock is trading at the next 12-month price-to-cash flow ratio of 11.9, well below the industry average of 15.6.

Aritzia

Aritzia (TSX:ATZ) stock has bounced back strongly in the recent past. Aritzia recouped all of its losses and is trading up about 10% so far this year. The stellar growth in Aritzia stock is due to the company's continued strong performance on the financial front.

The company's revenues continue to grow at a breakneck pace, thanks to the sustained momentum in its base business. Aritzia's top-line has grown at a compound average annual growth rate (CAGR) of 17% since 2010. Moreover, its adjusted EBITDA and net income continues to mark double-digit growth.

Aritzia's comparable sales have consistently grown at a robust pace over the past 22 quarters. Despite challenges from the COVID-19 outbreak, Aritzia managed to register a growth of 8.9% in its comparable sales during the recently concluded quarter. Meanwhile, its bottom line remained strong and registered healthy growth.

Aritzia's near-term sales could take a hit due to the decline in the in-store traffic. However, its e-commerce sales are likely to mitigate some of the losses. Aritzia expects its sales from the e-commerce channel to mark 150% growth in the first quarter.

Meanwhile, e-commerce sales are likely to remain strong throughout the year. Anticipating lower store traffic, Aritzia is focusing on cost containment measures, which could continue to support its profitability.

Most of the Aritzia's headwinds are short term and should dissipate with the reopening of the economy. Meanwhile, its store traffic is likely to bounce back, which should support its comparable sales growth.

Aritzia's long-term business outlook remains strong, thanks to its innovative designs, loyal customer base, and thriving e-commerce business. Besides, square footage expansion in the U.S. should support further growth.

Given the company's strong fundamentals and ample growth catalysts, Aritzia is one of the top TSX stocks for long-term wealth creation.

CATEGORY

1. Coronavirus

TICKERS GLOBAL

1. TSX:ATZ (Aritzia Inc.)
2. TSX:MTY (MTY Food Group)

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