1 High-Risk, High-Reward Stock That Could Double by 2021

Description

There are not a lot of sure things that you can buy in the stock market. There is risk everywhere, which is why investors are frequently compensated for taking that risk. Some stocks offer excellent risk to reward profiles, though, that are difficult to ignore. One stock that you might want to take a look at is **MTY Food Group** (TSX:MTY).

Why MTY?

There is one reason why MTY got clobbered a few months ago. It was smacked by the global pandemic lockdown. That's it. There is no other reason for it to be hammered in this way. The virus closed its stores and forced the company to postpone its dividend and lay off its staff.

You see, MTY is in exactly the wrong industry for the current global crisis. It operates restaurants and fast-food chains, but people were mandated to stay in their homes at the height of the crisis. Furthermore, people are afraid to go out, driving individuals away from restaurants. Malls are closed, which is where many of this company's stores are located.

The thing is, though, that it is hard to imagine a future where one day we won't go back to doing what we were doing before. In the not-too-distant future, people will go to malls to hang out and shop. When they do, they will more than likely start to eat at these restaurants again.

When that happens, MTY will get back on its feet. Its dividend will likely get reinstated, and earnings will start coming back online. The stock will come roaring back.

The risks

As is the case with many stocks today, the biggest risk is time. Every day that businesses are shut down and people are afraid is another day without income. This increased financial pressure is especially tricky for a company that has debt.

MTY has debt. As of May 31, 2020, MTY had about $8 million in current debt (due within a year) and about $527 million in long-term debt. As is always the case, debt puts pressure on a company. There have already been ample cases where companies are filing for bankruptcy due to the increased financial pressures of the global lockdown.

Furthermore, there is a risk that people have become accustomed to the new normal of cooking at home and buying items online. Personally, I think that this is less of a risk in the long term. As counterintuitive as it may sound, people don't really go to malls with the sole purpose of shopping. They go for entertainment, to hang out, and for people to see them shopping. Therefore, once people feel safe going out, they will likely start packing malls again.

Another risk that can't be ignored is the economy. We have no idea how bad the end result of the lockdown will be on the economy. If spending is seriously impacted, people might not go out to malls or restaurants because they don't have money to spend. I think this risk will be mitigated by government spending, though. Money does not seem to be an issue for this government, as it continues to pump out money.

The bottom line

Buying MTY is a great risk-to-reward opportunity. Before the crisis, it was profitable and paid a strong growing dividend. After the crisis ends, there is a very good chance it will bounce back. It's biggest problems are debt and time. If the crisis drags on, there could be increased pressure on MTY. Also, if the economy slows significantly, impacting economic spending en masse, people might continue to stay away from malls.

Buying it depends on your view of the virus's impact and the potential economic fallout. MTY is a high-risk, high-reward investment but there is potential for a huge upside.

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