MTY Food Group (TSX:MTY): What Investors Should Do After a Nasty Q2

### Description

Quick-service restaurant operator **MTY Food Group** (TSX:MTY) reported its second-quarter results last Friday. Not only were the results weak, but they also paint a gloomy picture of the company's future. Ultimately, that might further delay MTY stock's recovery, which has already lost 50% this year.



## MTY Food Group: Is more weakness coming?

For the quarter ended May 31, 2020, MTY's revenues came in at $98 million, a fall of more than 25% compared to the same quarter last year. Lower revenues were expected because of lockdowns and travel restrictions.

The company operated more than 7,000 restaurants, of which, 2,757 were temporarily closed amid the pandemic. While some of them are gradually re-opening, 573 restaurants remained closed until its earnings release last week. Driven by these severe damages, MTY reported a loss of $99 million for the quarter.

While the near-term focus for the management is to re-open restaurants, it expects to witness severe weakness for the next two to three quarters. Even after the pandemic is over, changed consumer behaviour might continue to affect MTY in short as well as in the long term.

This uncertainty will likely drive MTY stock in short to intermediate term.

## Challenges and opportunities

MTY Food Group looks well placed on the liquidity front and will likely weather the crisis. Its cost-cutting measures and dividend suspension was necessary and will help sustain it.

However, its leveraged balance sheet might concern some discerned investors. The situation might become grimmer for the company if the weaker business environment lasts longer than expected.

MTY Food Group's restaurants have an extensive presence in shopping malls and airports. It operates more than 80 banners and has a diversified revenue base.

The company exhibited noteworthy growth in the last few years before the pandemic hit. Interestingly, MTY's restaurant count and net income have approximately tripled since 2014.

Amid the pandemic, MTY stock fell close to $14 in March, almost its eight-year lows. The stock has doubled since then and looks overvalued. If we assume MTY reports 65% earnings decline in the current fiscal year compared to its 2019 earnings, the stock is trading close to 30 times.

Investors should note that analysts expect a much bigger decline in earnings for the current fiscal year. Additionally, the company's bleak commentary might push the stock lower.

## The Foolish takeaway

Though MTY has a vast number of banners and restaurants, its locations make it more susceptible to the current environment. While many market pundits do not expect meaningful changes in people's eating-out habits, MTY will likely be relatively slow to recover compared to peers.

The uncertainties might dominate MTY stock in the near term, pushing it closer to its recent lows. Investors with an appetite for excessive volatility could consider MTY Food stock. However, conservative investors might wait until its near-term challenges wane to some extent and business certainty prevails.



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