This Restaurant Stock Will Come Out of the Pandemic Stronger

Description

MTY Food Group (TSX:MTY) represents more than 80 brands present in Canada and the United States, including La Crémière, Van Houtte, Bâton Rouge, Scores, Thaï Express, and Valentine. The restaurant company has been hit hard by the pandemic, as it had to close its restaurants.

MTY reported a loss of $99.1 million in the second quarter, as the company assumed non-cash impairment charges of $120.3 million related to property, plant and equipment, intangible assets, and goodwill due to the pandemic. EBITDA was $18.2 million, down 47% compared to Q2 2019.

The restaurant company said the loss was $4.01 per diluted share for the quarter ended May 31 compared to a profit of $19.3 million, or $0.76 a share a year earlier.

Revenue fell to $97.8 million from $125.6 million in the same quarter last year.

MTY is trying to adapt to the post-COVID-19 reality

Eric Lefebvre, CEO of MTY, said in a press release that the second quarter was marked by significant operational challenges related to the COVID-19 pandemic, with the temporary closure of 2,757 establishments at the height of the pandemic and a considerable reduction in sales for many establishments that continued their activities.

MTY still had 573 locations closed, or 8% of its network, as of July 9. Lefebvre added that MTY remains in a solid financial position to execute its recovery plan and eventually pursue its growth strategy, with cash around $50 million at the end of the quarter, more than $190 million available on their credit facilities, and the greater flexibility offered by their amended financial commitments.

MTY had to implement drastic cost-reduction measures, which resulted in a decrease in recurring controllable expenses of more than $10 million during the quarter.

In the coming quarters, the company's main objectives are to reopen restaurants, offer customers a safe and friendly environment, and optimize the profitability of its restaurants, despite the limits and restrictions.

It’s hard to tell what the impact of the pandemic on the long-term financial performance of the company could be. MTY takes the necessary measures to mitigate the potential consequences that this situation could have on its operations, its franchisees, its partners, and its services to its customers.

Even after the end of the pandemic, customer eating patterns may change temporarily or permanently from those traditionally observed. MTY will have to adapt to new customers behaviours.

Although the company does not anticipate sales comparability for at least the next two to three quarters due to COVID-19, management believes that the company will be able to regain customer confidence in the brands and restore the positive momentum that it saw in the first quarter of 2020.

The company will focus, after the pandemic, on innovation, the quality of food and customer service in each point of sale, and the maximization of value offered to customers.

The restaurant stock is undervalued

The worst is probably over for MTY. Sales will start to increase as restaurants reopen. But it might take a while before things return to what they were pre-pandemic. Revenue is expected to fall by 13% in 2020 but grow by 13% in 2021. Earnings are expected to fall by 61% this year but should rise by 97% in 2021. EPS are estimated to rise by 22% on average per year over the next five years.

The stock has lost half of its value since the start of 2020. It has a trailing P/E of 8.9 versus a five-year average of 19.4, so it’s quite cheap. Buying MTY Food is like betting on the success of the recovery. This is a risky bet, as the coronavirus is still there and a second wave could still happen. But if a vaccine becomes available, people will be less afraid to go to restaurants. This would give a welcomed boost to MTY stock.

CATEGORY

1. Coronavirus
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:MTY (MTY Food Group)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Sharewise

6. Yahoo CA

Category

1. Coronavirus
2. Investing

Tags

1. Editor's Choice

Date
2025/08/26
Date Created
2020/07/13
Author
sbchateauneuf