



Should You Buy MTY Food (TSX:MTY) Stock After Its Solid Comeback in Q3?

Description

MTY Food Group ([TSX:MTY](#)) stock was among the top gainers last week. The stock soared more than 25% last week after it reported solid third-quarter earnings despite the dreadful COVID-19 pandemic. The developments must have calmed MTY investors to some extent after the stock touched multi-year lows in March amid the pandemic. MTY Food Group stock has recovered nearly 210% since its record lows in March.

MTY returns to profitability

The quick-service restaurant operator MTY Food Group [reported](#) \$135 million in revenues for the quarter ended August 31, 2020. This was a decline of 17% compared to the same quarter last year.

The company bore the brunt in the earlier quarter, with several of its restaurants closed and travel restrictions in place. However, it made a strong comeback in the fiscal third quarter and returned to profits.

During the start of the fiscal third quarter in June, 1,470 restaurants were temporarily closed due to the pandemic. But as unlocking began gradually, MTY managed to restart operations and re-opened 1,106 restaurants. Until last week, a tiny chunk of its operations is still affected by the restrictions, but it may not matter the company materially.

For the reported quarter, MTY earned a profit of \$23 million, marginally higher than the same quarter in 2019. Disciplined cash management and cost-cutting measures delivered the profitability despite the hit on the top line.

Will the recovery continue?

The worst could be over for MTY Food Group. The second wave of the coronavirus outbreak could notably hamper business activities, but it might not fully reverse the recovery. On the positive side, fear and apprehensions might subside gradually, which will likely increase footfall at MTY's outlets.

The recovery will likely continue and bolster MTY Food's cash from operations. As it adds more and more outlets amid the re-opening, the stock should keep up its upward climb.

MTY Food Group operates 80 brands in over 7,440 locations in 39 countries. Hospitality is one of the worst-hit industries amid the pandemic. The restaurant companies might continue to feel the heat on their financials for a couple of quarters.

In comparison, MTY's large-sized peer **Restaurant Brands International** ([TSX:QSR](#))([NYSE:QSR](#)) has also seen a convincing recovery in the second quarter. It will report third-quarter earnings in the next few weeks. Importantly, Restaurant Brands stock has soared 115% since its March lows, significantly underperforming MTY stock.

Attractive valuation

MTY Food Group stock looks attractively valued at the moment, which should push the stock further higher. It is currently trading at a price-to-sales ratio of close to 1.2 times based on sales estimates for the next 12 months.

The recovery in MTY stock should continue as more number of restaurants join its re-opening efforts. Also, the stock deserves a premium valuation, given its superior historical financial growth. In comparison, Restaurant Brands stock looks extremely overvalued and might see a limited upside from here.

MTY's [strong comeback](#) in the last quarter must have soothed investors. The stock might continue to climb higher, given its discounted valuation and solid quarterly earnings. Long-term investors should consider MTY stock amid its ongoing recovery.

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1. Coronavirus
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2. TSX:MTY (MTY Food Group)
3. TSX:QSR (Restaurant Brands International Inc.)

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Author

vinitkularni20

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