



2 Food Stocks Are “Strong Buys” Amid Rising Inflation

Description

Rising inflation can squeeze the [food business](#), but two companies catering to the food industry can overcome the headwinds. **MTY Food Group** ([TSX:MTY](#)) relies on its multi-branding strategy, while **Maple Leaf Foods** ([TSX:MFI](#)) is a highly successful consumer packaged goods (CPG) company.

The average price targets of market analysts seem to suggest they are [undervalued stocks](#). Their return potential is 25% at least in the next 12 months. Since both companies pay dividends, the overall return to prospective investors should be higher.

Expansion and organic growth

The franchisors under the MTY Food Group operates multiple restaurant concepts globally. Last year was challenging, yet the group posted a record-high adjusted EBITDA. The \$1.36 billion company also reported \$85.63 million in net income in fiscal 2021 (year ended November 30, 2021) compared to the \$37.1 million net loss in fiscal 2020.

In Q4 fiscal 2021, management reported 8%, 15%, and 23.9% growths in system sales, revenue, and net income versus Q4 fiscal 2020. Digital sales likewise increased 26.3% year over year. The \$803.6 million digital sales represent 23% of system sales in 2021. According to management, the ongoing pandemic accelerated consumer shifts to online ordering for delivery and take-out.

Eric Lefebvre, MTY’s CEO, said, “We generated healthy free cash flows and profitability, highlighted by record adjusted EBITDA of \$168.6 million in 2021.” Lefebvre cited the [strength of the business model](#) and resiliency of the franchisees for the robust financial results that further improved the balance sheet.

Other quarterly highlights include the dividend payout, the repurchase of shares, and debt repayment to reduce long-term debt. MTY remains focused on its long-term growth strategy to deliver organic growth. Investments in its network for growth and potential accretive acquisitions depends on market recovery.

According to management, the individual success of franchisees is the basis for the success of MTY

for the years to come. Furthermore, the diversified revenue sources allow expansion into other sales channels, such as the launching multiple ghost kitchens in existing restaurant locations.

MTY trades at \$53.41 per share and pays a modest 1.57% dividend. Analysts covering the stock see an upside potential between 28.3% and 45.1% in one year.

Canada's largest food processor

Maple Leaf Foods aims to be the most sustainable protein company on the planet. Investors expect the \$4 billion food processor that carries different brands to report impressive full-year 2021 results tomorrow.

In the nine months ended September 30, 2021, total sales and net earnings increased 7.1% and 14.8% versus the same period in 2020. Michael H. McCain, president and CEO of Maple Leaf Foods, said, "Our meat protein business delivered exceptional results in the third quarter."

The meat protein group saw its sales in Q3 2021 grow by 13.4% versus Q3 2020, although sales of the plant protein group declined 6.6%. McCain added, "We are seeing a marked slowdown in the plant-based protein category performance, which may suggest systemic change in the extremely high growth rates expected by the industry."

Market analysts are bullish in MFI, given their buy to strong buy recommendation ratings. The current share price of \$32.31 could appreciate by as much 42% to \$46 in 12 months. You can partake of the 2.23% dividend yield if you invest today.

Strong buys

The resilient business models of the two food stocks ensure recurring passive-income streams and capital gains, notwithstanding the rising inflation.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:MFI (Maple Leaf Foods Inc.)
2. TSX:MTY (MTY Food Group)

PARTNER-FEEDS

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

7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. cliew
2. kduncombe

Category

1. Dividend Stocks
2. Investing

Date

2025/08/12

Date Created

2022/02/23

Author

cliew

default watermark

default watermark