Here’s the Next TSX Stock I’m Going to Buy

Description

MTY Food Group (TSX:MTY) has been a millionaire-maker stock of choice, historically. The company’s acquisitions-led growth strategy remains on steroids post the COVID-19 pandemic. Management’s recent dabbling into stock repurchases may further prop up MTY stock and make long-term-oriented shareholders happy. Actually, the restaurant franchisor’s stock could make it into my personal retirement investment portfolio in 2023.

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MTY Food Group is a franchisor in the casual dining and quick service food space. The company employs a highly profitable capital-lite business model. Its franchise network of more than 6,600 locations could expand to 7,000 locations after consolidating two recent 2022 acquisitions. The company is a significant player in the food industry. Operating for more than 40 years, MTY Food has morphed into a formidable cash-flow minting machine and generated eye-popping returns for early investors.

Consider that, $10,000 invested in MTY Food stock 20 years ago would have grown to more than $2.1 million today. The law of large numbers does limit future returns; however, investing in MTY stock could handsomely reward patient investors again over the next 20 years. Here’s why.

MTY Food has perfected its acquisitions-led growth strategy

Since the 1990s, MTY has grown its franchise network and increased system revenues, earnings, and cash flow mainly by acquiring industry competitors. Annual system sales have ballooned from around $689 million (from 2,208 locations) in 2012 to over $4 billion and nearly 7,000 locations today. Revenue growth has been phenomenal over the past decade. Importantly, management has perfected its art of accretive acquisitions.

A recently completed acquisition of Wetzel’s Pretzels for $282 million in December expanded MTY Food Group’s footprint in the United States to over 4,200 locations. The U.S. market is a major component of the company’s most profitable revenue segment. The Wetzel’s Pretzels’ acquisition could increase system sales in the country to 70% of total companywide system sales, enhance the group’s foothold in the snack food category to diversify offerings, and minimize sales seasonality. The deal is expected to be immediately accretive to MTY's earnings and free cash flow per share in 2023.

Financial analysts project a robust 21.9% annualized growth rate in MTY's earnings per share over the next five years. Sustained profitability, growing free cash flow, and share repurchases will be strong contributors to MTY stock investment returns over the next five years, and beyond.

Growth through accretive acquisitions is a tried-and-tested strategy the company employs. MTY Food's portfolio of over 80 strong brands is growing. Going forward, it should be a significant source of investment return on MTY stock over the next decade. I'd love to join in on the action and buy MTY stock in 2023.

Share repurchases added to the mix of MTY stock return boosters

MTY Food increased its quarterly dividend by 17% in 2022 as it fully recovered from a COVID-19 pandemic cash flow plunge. The payout still yields a low 1.5% so it won't feature in dividend investing strategies. That said, the company notably expanded its shareholder-friendly capital management policies to include share repurchases during the year.

The company intends to repurchase nearly 5% of its outstanding common shares on the open market by early July 2023. If successful, the share buyback program could reduce future claims on the company's earnings and cash flow, and boost the remaining shareholders' returns.

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Stock looks undervalued

A forward price-to-earnings (PE) multiple of 12.4 on MTY looks reasonable given rising uncertainty about a potentially resurgent COVID-19 pandemic affecting China, and a grim economic outlook as North American central banks raise interest rates to tame inflation – a policy move that may trigger recessions.

Most noteworthy, a forward price earnings-to-growth (PEG) ratio of 0.7 implies that MTY Food stock is currently undervalued relative to the company's future earnings growth potential. The PEG ratio divides a stock's PE multiple by its expected future earnings growth rate. A fairly valued stock should have a PEG ratio of 1.0. Otherwise, a forward PEG of less than one implies MTY stock is undervalued. Not enough consideration is being given to the company's potential to generate more profits for its shareholders.

Investor takeaway

MTY proved its mettle by surviving a global pandemic that closed restaurants and locked humans indoors for months. Shares may continue to generate positive investment returns as long as management reinvests free cashflows, acquires competitors, and repurchases outstanding shares over the next 20 years. Assuming MTY continues on this track, I should buy MTY stock in 2023.

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