LA PRESSE

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MTY’s impressive stock market surge continues. Is it sustainable?

Rise of MTY – Is it still time to invest?

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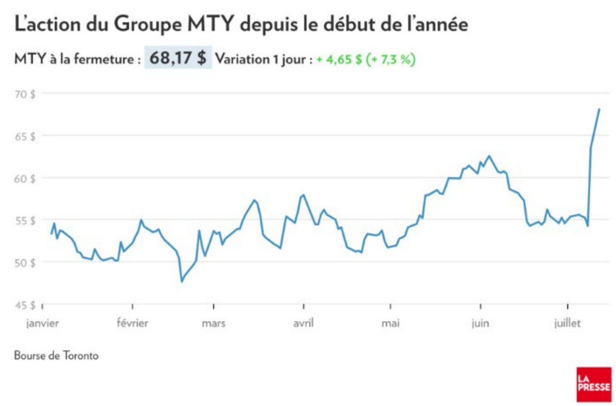
LA PRESSE

The Montreal franchisor's stock gained 7%, reaching $68.17, during the first session of the week. This gain adds to the 17% jump recorded on Friday after presenting results that exceeded expectations. The stock has quintupled since its low of $14 reached in March of last year.

On Monday, MTY benefited from the support of National Bank Financial. Analyst Vishal Shreedhar now recommends buying the stock. In a note sent to his clients before the start of trading on Monday, he explained that the evaluation does not reflect the "significant progress" made through innovation, marketing, data analysis, etc. "If MTY manages to maintain sustained organic growth, we should anticipate upward pressure on the stock over time."



His colleague Derek Lessard, from TD, admits to having missed the strong rebound of the stock but continues not to recommend buying it. "I am comfortable with this, as the stock's rise already anticipates the expected rebound in sales this year, not to mention the challenge posed by the labor shortage and inflationary pressures."

Opinions remain divided on Bay Street. Of the eight analysts following MTY, four recommend buying, although the stock's rise forces an increase in target prices.

"At its current price, the valuation multiple is not unreasonable," says Pierre-Olivier Langevin, portfolio manager at Medici.

This expert, whose firm holds MTY shares for its clients, calculates that the accounting profit (which excludes amortization charges) reaches $4.81 per share for the last 12 months. "We're at 14 times profits, while the market is at more than 20 times profits, and some stocks are even at 30 times," he says.

Pierre-Olivier Langevin specifies that in his calculation of $4.81 per share, there may be 40 to 50 cents of non-recurring profits. "Wage subsidies, a reversal of provision, etc. The real adjusted profit is therefore more around $4.40. But even then, it gives a reasonable multiple."

He indicates that the executives are starting to talk about acquisitions again, which have been the growth engine for the past 10 years. "If the main growth driver restarts, it's a good sign," he says.

"When investing in MTY, one must understand that they are buying a company where more than half of the sales come from two growing concepts: Papa Murphy's [take-and-bake pizza] and Cold Stone Creamery [ice cream]," says Laval portfolio manager Ian McLean of McLean Capital.

Papa Murphy's is a growing concept for MTY. This chain has more than 1,300 locations in the United States and now accounts for 33% of MTY's sales. Not Just Food Courts Ian McLean points out that in Quebec, MTY is often associated with its brands found in shopping mall food courts, which sometimes worries markets. "However, only 15% of MTY's locations are in shopping malls or office towers. About 15% of MTY's sales come from Quebec this year, compared to 67% in the United States." Pierre-Olivier Langevin observes a "return to normal." "People will return to work in the office in September or October. There is still room for improvement, although the numbers are close to their pre-pandemic levels. Observers may wonder if there will be surprises, whether the numbers will be higher than before the pandemic," he says. The most significant risk, according to him, is the health of the franchisees. "The restaurant business is tough. Margins are compressed. Uber Eats and DoorDash are growing rapidly. They take a share from the restaurateur, and food inflation is coming. A weak franchisee before the pandemic may not be able to continue operating for long. This remains to be seen because aid plans have been effective in preventing closures. But once the aid is withdrawn, will the demand return, and will some franchisees be weakened by higher debt?" Everything remains relative, however, he adds. "There are probably other restaurateurs in worse shape. MTY's weakened franchisees may be in a better position than many other market players who will go bankrupt, allowing MTY to gain market share." Ian McLean recalls that MTY has generated sales growth of 23% per year over the past 10 years and that the management is energetically investing in technology to notably increase online orders. "Considering the size of the restaurant market in North America and the size of MTY, the company has enormous growth potential," says this MTY shareholder investor.