

MTY's share price rests on pretzels

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TEXTE INTÉGRAL

The share price of MTY Food Group Inc. has been stuck between \$45 and \$60 over most of the past five years, giving loyal investors little to celebrate. Will pretzels power the shares to new heights?

The Montreal-based company franchises and operates eateries in Canada and the United States, under about 90 different brands that cater to casual diners looking for quick food at reasonable prices.

You won't find Michelin stars or maître d's at the likes of Mr. Souvlaki, Manchu Wok or Jugo Juice.

But these brands and others –some with locations in malls and office buildings –underscore a strategy that is raising optimism among some analysts and investors as pandemic routines fade and hungry consumers return to shopping concourses.

Through steady expansion and geographical diversification, MTY has used its heft to create economies of scale and streamline operations.

And now, following a pause during the pandemic, the company is back in acquisition mode with two large deals in recent months.

In August, MTY announced the US\$200-million acquisition of Nasdaq-listed BBQ Holdings Inc., the owner of Famous Dave's and Barrio Queen, among other brands. The deal closed in September.

Earlier this month, it announced a US\$207-million deal to acquire Wetzel's Pretzels, a snack purveyor with 350 locations, which won plaudits from some observers for the strength of the franchise and the fact that it lifts MTY's U.S. sales exposure to 70 per cent.

"It is probably one of the best acquisitions that we've seen them do in the past three to five years," said Aaron Lanni, portfolio manager at Medici, a Quebecbased investment manager that owns shares in MTY.

Though MTY struggled during the pandemic to produce organic sales growth from its restaurants, the pretzel chain shows promise on this score.

Its franchised stores, Mr. Lanni noted, are generating sales of US\$700,000 a year, on average, at a 20-per-cent profit margin.

Same-store sales have been rising at a mid-single-digit range for the past 15 years, and two-thirds of franchisees own more than one location, suggesting they are invested in the concept.

"Usually, MTY will buy something that's either mature, not really growing or slightly declining –and they hope to deliver growth.

"But this one is already growing, it's in high-traffic areas and they paid a reasonable price," Mr. Lanni said.

MTY paid about nine times EBITDA (or earnings before interest, taxes, depreciation and amortization) for Wetzel's Pretzels.

That's in line with MTY's own valuation, but slightly higher than the average price it has paid for the past 24 acquisitions.

When the deal was announced on Nov. 2, MTY's share price rallied 6.3 per cent, suggesting investors also like the look and price of the transaction.

But MTY's stock has been struggling for direction over the longer term, with some serious zigzagging. Though well up from its pandemic lows in 2020, the stock is trading at late-2017 levels, meaning that it hasn't made any meaningful progress in five years.

The share price is down about 15 per cent from a recent high in August, 2021, when ultra-low interest rates and a reopening economy fuelled a bull market in stocks that has since floundered on soaring inflation, rising rates and a looming recession.

Can MTY build momentum?

Though the latest two deals lift the company's debt to a higher level –more than three times EBITDA, according to Raymond James, and at a time when borrowing costs are rising –analysts expect that MTY can focus on using its cash flow to pay down this debt to a more comfortable level over the next year.

That means less emphasis on additional large acquisitions –expect deals that are “more bolton in nature,” said George Doumet, an analyst at Bank of Nova Scotia, in a recent note –and more focus on generating results from its existing franchises.

“If they can show that samestore sales are trending in the right direction, and bring back positive net openings” –or more locations opening than closing –“I don't think the market is baking that in,” Mr. Lanni said.

He thinks the shares are undervalued. Pretzels, he hopes, will prove him right.

DÉTAILS

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