Is Freshii Inc. a Good Buy?

Description

Freshii Inc. (TSX:FRII) is a new stock on the TSX which started trading back in February and has seen its shares drop by over 23% since that time. The restaurant operator focuses on health-conscious foods and has both company-owned and franchise-owned locations in several countries totaling over 240 locations worldwide.

As consumers focus more and more on health trends, a brand like Freshii could have a lot more growth opportunities than the conventional fast-food restaurant. I'll have a closer look at Freshii to see if this is a stock you should consider investing in.

Financial performance

The company is still fairly small with revenues of just $5 million in its most recent quarter and showing no growth year over year. Perhaps more troubling is that the company's net income and operating income have both been negative for each of the past three quarters.

In its most recent fiscal year, the company posted revenues of $16 million, which were up 45% from the year before and double 2013's tally. The company has been able to maintain a positive net income in three of the four years it has been in operation with 2015 being the lone year in the red.

Stock valuation

Currently, the stock is trading at over $9 per share as of close on Friday, or at over seven times its book value. Its price-to-sales ratio is at over 11, while a company like **Restaurant Brands International Inc.** (TSX:QSR)(NYSE:QSR) trades at just over six times its sales. Both price-to-sales and price-to book ratios are very high for Freshii and could be why there has been such a sell-off of the stock so far this year. This is still a very young company with a lot of question marks around how it will perform, and it is understandable if sales and profits are not pouring in yet.

Lack of moat

The problem with the Freshii brand is that the restaurant industry is highly competitive, and there have already been many competitors to enter this space. Subway is perhaps the most famous brand that was synonymous with healthy eating, and nowadays more and more of these types of restaurants are popping up, with The Chopped Leaf being the first example that comes to mind.

Rapid growth

Freshii boasts about its rapid expansion; it was able to reach 100 restaurants in faster than **McDonald's Corporation** did. However, fast-food restaurants are much more prevalent now, and a rapid expansion of a healthy food brand, to me, signifies people buying into the hype at a time when it is much easier to find space to add another restaurant location. My concern would be that although Freshii is off to a quick start, that could change significantly if franchisees are not able to turn profits and prove the brand is able to stand out from the pack.

Bottom line

There is not a lot to be excited about in the company's financials, and with a lack of moat or strong brand, it is far too early to see this as an investable company. Until Freshii can prove it has separated itself from the pack of other health-conscious restaurants out there, it would be difficult to justify betting on the company's long-term potential.

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