Is Freshii Inc. (TSX:FRII) the Restaurant Stock to Own?

Description

Yes. Yes. Maybe. And No.

If you're a little confused about my answer to the headline asking whether **Freshii Inc.** (TSX:FRII) is the restaurant stock to own, please allow me to elaborate.

I was thinking about who might be interested in buying its stock, given its loathsome condition.

The first yes

This represents anyone who likes buying stocks under $10. While purchasing stocks at a certain price point has no bearing on future returns, some investors feel stocks are a bargain under $10 and ridiculously overpriced at $200.

The fact is, you're just as likely to generate above-average returns over the long haul from a $200 stock as you are from one trading around $6.30, where Freshii is trading as I write this.

Another yes

The second yes is for value investors.

Granted, most value investors look for profitable companies (Freshii is currently is on the borderline) that are out of step with the markets, but given FRII stock has lost 45% of its value over the past 18 months since its IPO price of $11.50, any investors still holding shares are probably hoping and praying enough people see the glass as half full rather than half empty.

One investment professional who sees a silver lining in the Freshii story is Felix Narhi, chief investment officer of Penderfund Capital Management in Vancouver. He believes millennials are literally going to take FRII stock on their shoulders and make all the original IPO investors whole.

How?

By growing its asset-light franchise model to 730 stores by the end of fiscal 2019 from Q1 2018's total of 396. The portfolio manager believes CEO and founder Matthew Corrin, a millennial, has the right stuff.

Maybe it's the play

Fool contributor Joey Frenette recently suggested that the partnerships it has with delivery services UberEATS and SkipTheDishes show what type of market Freshii is after, because although the millennials' love of healthy food is real, they're also very much into convenience.

And if you look a little closer at Freshii's latest numbers, they are actually pretty decent.

In Q1 2018, Freshii generated 1.6% same-store sales growth, which was on top of 6.4% same-store sales growth in Q1 2017. That's an average of 4% annual same-store sales growth over the past 24 months.

If you take into account the timing of the Easter weekend (the last day fell in Q2) and inclement spring weather, Freshii's same-store sales growth might have been up by as much as 3.8%, providing two-year annualized same-store sales growth of 5.1%, 28% higher than what was reported.

Add to that the fact it has zero debt, more than $28 million in the bank, and $1.1 million in free cash flow, and you're talking about a business model that's starting to look a little less anemic.

Finally, it's a no

My colleague finished his piece by saying Freshii is a stock he'd only recommend to aggressive investors, and I have to agree. If you can afford to spend a few bucks on FRII and not miss the funds should it go down the proverbial you know what — go for it. You could do a lot worse on the TSX.

However, I asked at the top if Freshii is THE restaurant stock to own? No, it's not.

As much as it pains me to say this, there are several better options to buy, including **Restaurant Brands International Inc.** (TSX:QSR)(NYSE:QSR); in March 2017, I recommended investors pass on Freshii and buy QSR instead.

Although my opinions of Tim Hortons's parent have hardened since then, I'm willing to concede it's a better restaurant stock to own than Freshii.

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