Which Is the Better TFSA Growth Stock: Freshii Inc. (TSX:FRII) or Roots Corp. (TSX:ROOT)?

Description

Both the restaurant industry and clothing retail have undergone big changes over the past decade. Even more significant transformations are slated to occur in the coming years.

Clothing retail has faced the same hurdles as that of the retail industry, namely, the decline of brick-and-mortar retail and the shift to e-commerce business. Certain companies have thrived and efficiently planned for this future, while others now face an overabundance of retail operations. The most forward-thinking clothing companies are able to balance this demand. **Canada Goose Holdings Inc.**, as an example, aims to have a 50/50 split among wholesale and direct-to-consumer revenue.

The restaurant industry is facing a challenge due to demographics and changing dining habits. Millennials have turned away from casual dining establishments and are more geared to fast-casual or even the option of home dining offered by apps like Uber Eats or Skip the Dishes.

Both of the companies that we will cover today have managed to confront these challenges with varying degrees of success. Which one belongs in your TFSA today? Let's take a look.

Roots Corp. (TSX:ROOT)

Roots stock has dropped 3.7% in 2018 as of morning trading on July 6. Shares surged in April following the release of its fourth-quarter and full-year results that showed impressive sales over the holiday season. However, the release of its first-quarter report poured cold water on some of this enthusiasm.

Roots released its Q1 2018 report on June 13. Total sales were up 5.8% year-over-year to $51 million and direct-to-consumer sales climbed 9% to $44.2 million. Adjusted net loss per share was reported at $0.11 compared to $0.09 in the prior year. Roots opened two new corporate retail stores in North America and two partner-operated stores in Taiwan in the first quarter.

Sales were reportedly hurt by the poor winter, but the company maintained its full-year target of between $35 million and $40 million of adjusted profit and between $410 million and $450 million in sales.

Freshii Inc. (TSX:FRII)

Freshii stock has plunged 13.7% in 2018 thus far. The company launched its initial public offering in January 2017 and shares have been unable to sustain its initial highs after a number of disappointments. Freshii shares are down 47% year over year.

Freshii has aimed to cater specifically to younger demographics with its focus on healthy eating and its quick-serve style. The company announced its first-quarter results on May 9. System-wide sales increased 34% year-over-year to $39 million and the company opened 26 net new stores in Q1 2018. Adjusted EBITDA jumped 50% from the prior year to $1.5 million. Freshii also announced a partnership with Shell that will offer Freshii items at select gas stations.

Which stock should you go with today?

Roots has exceeded expectations following a disappointing IPO, although the company posted a steeper net loss in Q1 2018. The company saw more progress in its e-commerce business and is well positioned ahead of the busier seasons.

In spite of this, I still prefer Freshii at its current price as it continues its gradual buildup. The sharp drop in share value last year was not necessarily warranted given that many new companies often make downward adjustments in early expansion.

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aocallaghan