TFSA Wealth Creation 101: A Growth Stock I'd Hold for the Next 20 Years

Description

If you're like many hungry growth investors, you're likely on the hunt for an early-stage growth business that has the capacity to produce multi-bagger returns over the next five, 10, or 20 years. When it comes to such opportunities, it's worthwhile to have a look at some of the small-cap players on the TSX index.

Consider **Goodfood Market** (TSX:FOOD), a Canadian meal-kit delivery service provider that's capitalizing on the millennials' appetite for comforts and conveniences.

When it comes to cooking, grocery shopping and leftover ingredients are taken out of the equation with a Goodfood subscription, and although the true value provided by the service is up for debate, there's no question that millennials have been more than willing to pay up for such services that save them time.

Time is money, and one could argue that Goodfood is in the business of selling not only simple and delicious recipes and ingredients to customers, but also time — a very precious commodity.

The company has been growing like a weed, averaging 286% in annualized growth over the last three years.

For the third quarter, Goodfood clocked in $45.3 in revenue, with gross merchandise sales over $200 million, alongside encouraging improvements to adjusted gross margins (almost 40%). The company is still in the red, but less so than analyst expectations with a $0.10 quarterly loss, lower than the $0.12 loss that analysts were calling for.

Management's long-term goal is to hit adjusted gross margins of 45%, and after a solid Q3, it looks like Goodfood is on the right track on the pathway to eventual profitability.

The firm continues to invest in initiatives that aim to improve operational efficiencies, and with operating cash flows swelling on a year-over-year basis, Goodfood looks like it could become king in a red-hot industry that's riding on secular tailwinds that are thanks mostly to the millennial cohort.

There's no question that a fierce level of competition could pressure margins and make it a lot tougher for management to reach its long-term gross margin target.

With Hello Fresh and various grocers looking to win over the business of Canadian meal-kit subscribers, churn may grow to become a pressing issue, especially with non-existent switching costs. And with some folks thinking that the meal-kit business is just a novel fad that'll fade with time, it's tough to justify an investment in meal-kit firms that aren't able to offer a significant long-term value proposition to customers.

Fortunately, Goodfood's margins are headed in the right direction. But in the end, I see margins as a race to the bottom, as more players look to realize the economic profit to be had from the budding industry.

Moreover, I think the odds of getting acquired by a grocer is pretty high over the next few years. The company has terrific automation capabilities and growing brand equity. The stock trades at 1.06 times sales, which is certainly not a high price to pay for a company that's inching closer and closer to sustained profitability.

If you're young and have a stomach for volatility, Goodfood may be a terrific long-term hold for your TFSA. The future of the industry is full of uncertainty, but the business itself is operating at a very high level.

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