Top TSX Stocks: This 1 Stock Is a Must-Buy!

Description

Goodfood (TSX:FOOD) is an online grocery company in Canada that delivers fresh meal solutions from coast to coast. The company has its main production facility and administrative office in Montreal, Quebec and two secondary production facilities in Alberta and Quebec with another slated to open in British Columbia in early 2020.

The company has a wholly-owned subsidiary, Yumm Meal Solutions Corp. Goodfood reports a market capitalization of $181 million with a 52-wweek low of $2.36 and a 52-week high of $3.98.

Intrinsic price

Based on my calculations, using a discounted cash flow valuation model, I determined that Goodfood has an intrinsic value of $37.35 per share.

Assuming less-than-average industry growth, the intrinsic value would be $26.25 per share, and higher-than-average industry growth would result in an intrinsic value of $66.66 per share.

At the current share price of $3.21 at writing, I believe Goodfood is significantly undervalued. Investors looking to add a meal kit delivery company to their TFSA or RRSP should consider buying shares of Goodfood.

Goodfood has an enterprise value of $2.2 billion, which represents the theoretical price a buyer would pay for all of Goodfood's outstanding shares plus its debt.

One of the things to note about Goodfood is its leverage, with debt at 13.1% of total capital versus equity at 86.9% of total capital.

Financial highlights

For the year ended August 31, 2019, the company reported a mediocre balance sheet with $42 million in negative retained earnings, down from $21 million in negative retained earnings the prior year.

Although this would be a bad sign for a mature company, I'm not overly concerned about this given the fact that Goodfood is a growing company and will take several years to turn a profit consistently.

The company reports cash and equivalents of $45 million with short-term debt obligations of $1.3 million, which means the company has more than enough cash on hand to cover its current liabilities. This is a very good sign, as it suggests solid financial planning on the part of management.

Overall revenues are up sharply to $161 million up from $71 million in fiscal 2018 (+129%), largely driven by the growth in the company's subscriber count (200,000 at fiscal 2019, compared to 89,000 at fiscal 2018).

Unsurprisingly, the company reported a net loss of $21 million, down from $9 million in 2018 but this is expected from a growth-oriented company.

Senior management is dedicated to taking a proactive approach to debt management, as evidenced by its $2 million pay- down of long-term debt (up from a $1 million pay down in fiscal 2018).

It's fueling growth through the issuance of debt and common shares, which accounted for 37% and 63% of total capital raised in 2019, respectively. I admire the company's decision to not overload its funding with debt, which exposes the company to leverage risks.

Foolish takeaway

Investors looking to buy shares of a meal kit delivery company should consider buying shares of Goodfood in their TFSA or RRSP. The company reports an intrinsic value of $37.35 compared to its current share price of $3.12, which means there is 1097% growth potential from its current share price.

The company has mediocre financials, as indicated by its negative retained earnings and net loss. However, I remain optimistic about the company's future growth prospects, which will eventually deliver significant value to Goodfood's shareholders.

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