Goodfood Market (TSX:FOOD) Stock Soars by 12% on Strong Earnings

Description

One of the best-performing stocks of the year is **Goodfood Market** (TSX:FOOD). It is a niche company that provides fresh meal delivery kits to subscribers. In light of the economic shutdown, demand for its products have soared.

As of end of day on Tuesday, the company's stock price was up by approximately 81%. Many investors tend to shy away from stocks that have had big run-ups. However, as we've seen in this market, winners keep on winning.

Unlike most companies, expectations were high heading into earnings. How did Goodfood Market perform? Let's take a look.

The earnings report

Before the bell on Wednesday, the company reported third-quarter results, which ended May 31, 2020:

Metric	Reported	Expected
Earnings per share	$0.05	-$0.05
Revenue	$86.6 million	$81.38 million

Goodfood Market delivered, and then some. First the first time in company history, it posted positive net income and adjusted EBITDA. Earnings of $0.05 per share crushed estimates for a loss of $0.05 per share, and revenue of $86.6 million also topped expectations.

Revenue grew by 74% year over year and is reflective of strong demand for the company's products. The 44% uptick in subscriber growth to 272,000 is no surprise. The company pre-announced these numbers in an early June press release. In that release, it also forewarned on rising costs.

> "With the uptick in demand also came operational challenges and additional costs that have impacted our gross margin,which we were able to offset in part by our controlled marketing spend."

— Neil Cuggy, president & chief operating officer

These costs, which amounted to approximately $2.4 million, were a result of staffing and supply chain challenges. The fact that the company was in the black and grew gross margins by 50 basis points, despite these additional costs, is impressive.

The year ahead

The company is operating in one of the fastest-growing industries in the country — online grocery. Despite our best efforts at controlling the pandemic, consumer habits are changing.

Goodfood Market is an essential service and "continued to operate throughout the pandemic and experienced an acceleration of growth in demand." Demand will remain strong even after we emerge from this pandemic.

The biggest risk to the company is a disruption to its supply chain. As we saw in the third quarter, Goodfood may incur additional costs as a result. Likewise, growth could stall in the event supply chain issues impact its ability to meet demand.

Overall, management is navigating these challenges quite well. Strong third-quarter results are proof of that. Analysts currently expect the company to grow earnings at a 35% clip over the next few years. Likewise, they have a one-year target estimate of $5.62 per share, which is essentially flat from today's price.

Given strong results, expect these estimates to be revised upwards over the next few months.

Is Goodfood Market stock a buy today?

Despite its current run-up, Goodfood Market is well positioned for outsized growth. The company looks expensive, as it is trading at 25 times book value and hasn't proven its ability to remain profitable.

That being said, the third quarter was a big step towards sustainable profitability. Likewise, it is only trading at 1.5 times sales and has an enterprise value-to-revenue ratio of only 1.59 — both of which are quite cheap.

I have a positive outlook on the company, and Goodfood Market stock is worth another look by aggressive investors.

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