



Goodfood Market (TSX:FOOD) Stock: Big Upside Potential

Description

On Wednesday, **Goodfood Market** ([TSX:FOOD](#)) released fiscal 2020 third quarter results. It was a strong quarter, as earnings of \$0.05 per share beat by \$0.10 and revenue of \$86.6 million beat by \$5.22 million. The market sent the [stock price soaring](#), touching double digits before closing at \$6.02 per share (+5.80%).

Year to date, the company's stock price is up by 92.33% and is one of the best-performing stocks on the **TSX**. Did investors miss out, or is there still room to run? Let's take a deeper dive into the quarterly conference call to find out.

Accelerated demand

Whereas most companies are struggling to deal with the economic fallout of the pandemic restrictions, Goodfood Market is taking full advantage. The demand for online grocery is accelerating and as a result, the company is seeing strong demand for its products and services.

"The month of March, April and May have seen the online grocery market take off and its penetration among Canadian households accelerate significantly with years of forecasted growth turning into months." – Jonathan Ferrari, Co-Founder, Chairman & CEO

The last few words in this quote are quite the statement. It's quite clear that the pandemic accelerated the adoption of online grocery shopping and meal delivery kits.

This should come as no surprise. As Canadians were forced to self-isolate and remain at home, they adopted new ways of shopping. This includes a significant uptick in online grocery shopping.

This led to a higher and active subscriber rate which in turn led to increased orders and larger basket sizes.

Most notably, we may be witnessing a change in consumer habits. Thus far **Dollarama** ([TSX:DOL](#)) and **Alimentation Couche-Tard** ([TSX:ATD.B](#)) have both commented on [changing consumer habits](#). Goodfood Market was no exception and Mr. Ferrari believes these changes are permanent:

“(Canadians) embraced online grocery shopping in a way that marks a pivotal and permanent shift in consumer shopping habits.”

The truth probably lies somewhere in the middle. Regardless, it should mean strong demand in the industry moving forward.

New capacity coming on board

One of the challenges the company is facing concerns supply chain management. Increased demand and supply chain disruption led to increase costs in the quarter — and likely missed opportunities.

The good news is that Goodfood Market is adding new capacity. Over the past few months it opened three operations:

In March, it opened an 84,000 square foot facility in the Greater Vancouver; in April, it launched a new 42,000 square foot fulfillment centre in the Greater Toronto Area; and it also completed the construction of a prepared meals commissary in Montreal.

Finally, it's in the process of building a massive 200,000-square foot-facility in the GTA. Slated for completion in 2021, this added capacity will be a key driver in meeting increasing demand.

In terms of the last-mile delivery initiative, it has significant benefits. Good Courier handled approximately one third of the company's deliveries. This is important for a number of reasons. Mr. Ferrari explains:

“Taking control of the last-mile delivery in certain high density areas has helped our members' overall experience. It has reduced our delivery costs, and it will be critical to the development of our same-day and next-day delivery capabilities.”

The expansion of its last-mile delivery program is a key driver in lowering costs and improving service delivery.

Is Goodfood Market a buy today?

In terms of third-quarter results, there wasn't much *not* to like. The company delivered (pun intended) and is quickly becoming a leader in the online grocery market sector.

The pandemic has accelerated growth and as such, the rise in company share price appears justified. It also means that there's likely room for further capital appreciation. New capacity will help the company meet demand, and it should have no problem raising money to fund growth initiatives.

I maintain a positive outlook on Goodfood Market, and the positives far outweigh the challenges and additional costs incurred.

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