Goodfood Market (TSX:FOOD) Just Surged 242%: Should You Buy?

Description

Goodfood Market (TSX:FOOD) is a lesser-known growth stock that I've been pounding the table on in recent months as an undervalued, resilient growth stock that was facing large, possibly unrecognized pandemic tailwinds. The Canadian meal-kit delivery company has seen a surge in demand for its services amid the pandemic. Despite the recent 242% rally in the stock since its March lows, shares still seem ridiculously cheap at 1.5 times sales following the company's recent move into profitability.

For a company with a mere $360 million market cap, Goodfood Market is an up-and-coming tech sensation with room to run. But as pandemic tailwinds fade over the coming months and years, is the stock still worthy of owning in your portfolio? Or will subscriber growth crumble like a paper bag once it becomes safer to venture into the narrow aisle of the grocery store once again?

Room to run? Or a short-lived boost?

There's no question that some investors are feeling a bit uneasy over the potential for churn rates when it comes to meal-kit delivery service providers. Goodfood Market and many of its competitors in the now crowded space are in high demand amid the COVID-19 pandemic. Margins in the meal-kit industry are quite thin, and the value proposition to customers is questionable, to say the least. However, I believe there are reasons to believe that the Goodfood's recent turning of a profit is the start of a trend and not just a green bump in the road as a result of the pandemic.

Goodfood Market turns a profit in the third quarter

Goodfood stock recently surged an astounding 16% following the release of some pretty stellar Q3 numbers that saw the meal-kit kingpin turned a profit for the first time in its history, with a positive EPS of $0.05 per share, crushing the consensus expectation that called for a $0.05 EPS loss.

New subscriber growth surged, as did the frequency of orders for existing subscribers. Revenues rose to $86.6 million, and gross margins increased by 0.5% year over year to 29%.

“The COVID-19 outbreak ignited the growth of online grocery shopping in Canada, where the penetration rate has historically been particularly low compared to many other developed economies.” said Goodfood Market CEO Jonathan Ferrari. “The adoption rate of online grocery shopping has effectively outpaced industry growth projections by several years, with Canadians embracing a new way of shopping that we expect is here to stay.”

The pandemic has undoubtedly acted as an accelerant for subscriber growth. And only time will tell if subscribers will be sticking around once social-distancing guidelines ease.

I suspect there will be some churn once the pandemic passes. Still, given the trajectory of margins and the ever-increasing value proposition that can be passed back to its customers, I think investors ought to stop treating Goodfood Market’s tremendous subscriber growth as unsustainable, because management has tools up its sleeves to limit subscriber bleed once its pandemic tailwind fades. Heck, count me as unsurprised if the company can retain the subscribers it won during the pandemic while continuing to add more with a potential marketing push.

Foolish takeaway

Goodfood Market’s long-term fundamentals are improving across the board. The cost structure keeps getting better with time. Although pandemic tailwinds played a significant role in the firm’s latest quarterly beat, I think investors also have to give credit to management, which is continuing to execute. Although the stock has had a heck of a run, it’s still a buy in my books given its ridiculously low price-to-sales multiple and fundamental improvements that will likely last well after this pandemic is over.

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