Food Stocks: 1 to Avoid, 1 to Buy

Description

The COVID-19 pandemic has changed the fortunes of many businesses around the world. Even within the same sector, companies have been affected in such different ways. In some cases, businesses have struggled and may continue to until we get a vaccine distributed. In other cases, businesses have thrived as a result of the pandemic. Today, I will discuss two food stocks that have been affected in completely opposite ways.

A food stock to avoid for the meantime

Ever since the start of the pandemic, consumers have cut down on eating out. During March and April, restaurants and similar businesses were forced to shut down, which affected them greatly. Now, with the number of cases on the rise once again, we could very well see more shutdowns imposed, even if on a smaller scale. One company that was affected negatively is **MT Food Group** (TSX:MTY).

The company franchises and operates a number of brands within the quick service, fast casual, and casual restaurant industries. Some of the names you may recognize include Manchu Wok, Mucho Burrito, South St. Burger, and The Works. All considered, MTY Food Group operates more than 80 brands within its network.

Prior to COVID, the company was an attractive investment option because of its diversified portfolio. As of Q2 2020, the company reported 7,236 locations in operation. Its largest divisions were frozen treats and smoothies (32%), American (24%), and Asian and Indian (13%).

At the start of the market crash, investors assumed that the company would be hit significantly. This resulted in MTY Food Group's stock falling as much as 70%. Today, it is still more than 10% lower than its value pre-COVID. However, things are starting to turn around. This could change drastically if governments impose further restrictions.

At the end of Q3 2020, MTY Food Group reported 7,123 locations in operation signifying a declinefrom its Q2 numbers. The company also reported quarterly revenues of $135 million, down from $161million last year. This represents a decline of 16% year over year.

Clearly, the company will not benefit from the recent increase in COVID cases. Until a vaccine is distributed, or until we get the number of active cases stabilized, I would hold off on starting or adding to a position in MTY Food Group.

One food stock that has thrived during the pandemic

In contrast, this company has seen business boom since the start of the pandemic. As mentioned, consumers have really cut down on the frequency with which they eat out because of COVID. This is a trend that has extended into the grocery industry, as consumers began ordering groceries online more frequently.

Goodfood Market (TSX:FOOD) is a leading provider of online grocery services in Canada. The company also offers ready-to-cook meal kits. As part of its market research, the company found that more consumers indicated, for the first time, that they had purchased groceries online than those who have not.

In addition, 54% of surveyed consumers indicated that the pandemic has greatly influenced them in permanently increasing their willingness to purchase groceries online rather than in-person.

The results of these surveys are also reflected in Goodfood's financials. In Q4 2020, the company reported 280,000 active subscribers. This compares to 89,000 in Q4 2018. Goodfood's current revenue run rate stands at $310 million, compared to $85 million at this point in 2018. The pandemic has clearly benefited this company greatly. As cases continue to rise, expect consumers to continue ordering groceries online.

Foolish takeaway

The COVID-19 pandemic has affected businesses significantly. Whether that be in a positive way, or negative, some businesses will be forever changed by this event. MTY Food Group, while a recognizable name, may be a good company to avoid for the time being.

On the other hand, it may be a good decision to consider investing in Goodfood Market as the company continues to grow during the pandemic.

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