This Canadian Tech Stock Is Flying Under the Radar

Description

It's definitely more challenging to evaluate high-growth companies these days, especially those riding high on pandemic tailwinds.

Some high-multiple tech stocks may deserve a nosebleed-level multiple. Others that have got caught up in the hype may not. It's the job of investors to separate the stocks with deservedly high valuations from those that don't. These days, I believe a relative valuation is the way to go for growth investors.

A growth stock that's also cheap?

If you're like me and want growth and value bundled into one stock, you'll have to do a lot of searching to find the gems that have been buried under numerous overvalued stocks in today's "frothy" stock market. In my opinion, **Goodfood Market** (TSX:FOOD) is a growth stock that's at the intersection of growth, momentum, and value. The Canadian meal-kit delivery firm can be defined as a grocery stock or something similar. I like to view it as a tech stock with the best growth days that lie ahead of it and a moat that's discounted by skeptical investors.

Shares of Goodfood have not looked back since the 2020 coronavirus crash, surging 584% from those depths of March from $1 and change to just over $13, where the stock sits today. While I'm no fan of chasing momentum stocks that have doubled up nearly six times over in a matter of months, I am intrigued by the valuation, which, I believe, isn't as high as it could be, given the pandemic tailwinds and the firm's growing value proposition.

A pretty cheap multiple, but there are steep execution risks

Today, FOOD stock trades at 2.7 times sales. While the meal-kit kingpin could experience sales pressure once the pandemic ends and customers hit the cancel button on their subscriptions en masse, I don't think it's too far-fetched to think that the firm can retain subscribers, as it continues to build upon its value proposition.

Goodfood Market needs to prove that it can retain subscribers in a post-pandemic environment

Meal kits can be pretty pricy. I've tried many meal-kit delivery services and find them to be totally worthwhile amid the pandemic, as they help reduce the number of trips to the grocery store, and with that, the risk of catching COVID-19.

Will such meal-kit services still be worthwhile in a return to normalcy? That's the million-dollar question. Fortunately, Goodfood's margins are headed in the right direction and it has options. If Goodfood can compromise on the margin front by offering even lower prices and a wider range of grocery add-on items, I think Goodfood can compete with the likes of grocery stores, even in a post-pandemic world.

The lack of a "cancel account" button on Goodfood's website, though, probably won't stop subscriber bleed in a post-pandemic environment. The more-convenient option to "skip" a week's deliveries probably won't cut it if Goodfood is to meaningfully build upon its momentum beyond 2021.

In the end, it's all about having the best value proposition, which, could be the key to a high rate of retention moving forward.

The Foolish takeaway on Goodfood Market stock

If Goodfood can retain subscribers won during the pandemic, the stock could face a re-valuation to the upside. If not, look out below! With both bull and bear cases considered, I think the stock is worth nibbling on for those seeking a cheap "tech" play. Just please be mindful of the risks.

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Date
2025/08/22
Date Created
2021/01/21
Author
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