Goodfood (TSX:FOOD) Stock: What Should You Do With This Stock?

Description

Canadian meal-kit business **Goodfood Market** (TSX:FOOD) is a company that saw astounding success during the pandemic. After a stellar year in 2020, management recently reported strong earnings for the quarter and the year. Yet investors worry now that the company has peaked in the high-growth market. So, here is my take on the company and where it might be headed.

Latest earnings growth

On Apr. 7, 2021 Goodfood announced its latest earnings results. The company saw yet another record-setting quarter, with quarterly revenue surpassing $100 million for the first time ever. The company now has a market capitalization of $590 million as of writing. And given that its global peers have closer to $1 billion market cap, this company still has some room to grow even after the record-setting quarter.

The quarter also saw record gross profit, reaching $30 million, but management believes there is even more to come. Chief Operating Officer and President Neil Cuggy stated that this gross profit was reached because the company "unlocked scale efficiencies, increased penetration of our delivery capabilities, and lower credits and incentives as a percentage of revenues." Management announced much of its investments into automation and technology continue to drive this growth.

A long-term investment?

So, there could be more growth on the horizon in the next year or so, but what about for long-term investors? Management believes that online grocery continues to be one of the fastest-growing industries in the world. This is in line with the growth of e-commerce as it continues to expand. So, the company believes there are significant opportunities to grow its subscriber base.

The company's valuations support an investment today. Shares are certainly undervalued afterclimbing almost 250% before falling back in the market pullback. As of writing, shares are down about40%, making it a strong time to buy and wait for a market correction.

As for long-term holders, it might not be a stock you'll have years and years from now. On the one hand, the company has 1.9 times sales, making a strong buy at today's share price. However, when looking at book value the company is at 9.1 times book value. So, that makes it a bit shakier.

What investors have to consider is what they want out of this stock. Will shares go up again? That's very likely, as with the rest of the market. On the whole, most stocks rise when held long term. But in the case of this stock, while a short-term rise is likely as the market rebounds, investors may see far less growth in the years to come.

Bottom line

Goodfood stock has been an excellent growth stock for 2020 investors. Shares *tripled* in that one year alone. But are investors likely to see another year like 2020 for stocks like Goodfood? Most likely not. The pandemic carried Goodfood upward, as consumers stayed home and found methods of bringing in fresh food. But although there are still ways the company can grow and expand, those ways seem limited. Once that limit is reached, investors may find shares start to drop in the next few years. So, it's likely best to have a an idea of when you'd like to cash out on your returns.

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Date

2025/08/19
Date Created
2021/04/09
Author
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