
1 Discounted Stock I'd Buy on the Rebound

## Description

Catching a falling knife is never easy, especially for beginner investors who may be quick to lose confidence. To get the greatest discounts, though, it can pay to average down in the names that are falling quickly for reasons that don't impact the long-term fundamentals.



Undoubtedly, near-term noise and weak-handed traders play major roles in why falling knives tend to accelerate their tumble into the abyss. As the great Howard Marks used to say, the pendulum tends to overswing to the downside, just as it does to the upside. And in the case of **Goodfood Market** ( TSX:FOOD), I believe the stock is in severe undervaluation territory after suffering a brutal +50% crash in the first half of 2021.

Despite being down over 13% year to date, Goodfood stock is still up over 420% from its lows in March 2020. Undoubtedly, the pandemic has given the up-and-coming Canadian meal-kit delivery company a nice boost. But like most other tech companies, Goodfood is in great shape to continue building on last year's incredible strength.

## Meal-kit delivery services: Innovative tech or moatless grocery competitor?

The pandemic caused meal-kit subscriber numbers to soar into the sky. The services saved people a trip or two to the grocery store. And during waves of COVID-19, such services are invaluable. As things return to normal, many people doubt the firm's ability to retain subscribers. Given how affordable meal kits have become in recent years and the ever-expanding offering of various grocery add-on items, I think it's a mistake to discount Goodfood retention abilities. Moreover, I think it could such competitors as Hello Fresh and Chefs Plate a run for their money.

You see, meal kits aren't a pricing race to the bottom. Goodfood has done a remarkable job with add-on items. And although they were quick to sell out during the worst of the pandemic's waves, I think Goodfood's add-on offerings will only improve with time. As such, I view Goodfood not only as a firm going after a lion's share of the meal-kit delivery market but also the grocery scene.

In a few years down the road, Goodfood may become a top Canadian digital grocer with an expansive lineup of delicious and high-margin offerings. Think ready-prepped meals, a growing lineup of smoothie mixes (millennials just can't get enough protein these days!), soups, sides, and all the sort.

These days, Goodfood's add-on offerings give the company a bit of a competitive edge, one that's likely to improve with time. For now, however, it's the main attraction (meal kits) that will allow the firm to retain and grow its subscribers. Down the road, though, don't overlook the add ons, as they could be a massive source of weekly ARPUs (average revenue per user).

## What about valuation?

The stock doesn't trade like a tech company or even a grocer. Shares trade at 1.9 times sales, which seems to suggest that a wave of subscription cancellations is still looming once the pandemic ends. With a decent and improving value proposition, I'd argue that Goodfood's offering is stickier than the Street believes.



With the bar set low heading into the second half, of the year I'd look to buy the $10 stock before it has a chance to prove the doubters wrong. Goodfood isn't just a pandemic play; it's a digital grocer with staying power. And I think it makes for a very compelling takeover target at these levels.

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