



Is Goodfood Market (TSX:FOOD) an Attractive Buy After Falling 25% This Year?

Description

Goodfood Market ([TSX:FOOD](#)) is an online grocery company that delivers meal solutions and grocery items to customers across Canada. The company had witnessed substantial growth during the pandemic, with its stock price rising by 354% during 2019 and 2020. However, it has lost close to 75% of its stock value over the last 13 months, with 25.3% alone this year.

Investors fear that the easing of restrictions and rising vaccination could slow down its growth. Also, the lower-than-expected first-quarter performance last month, fear of interest rate hikes, and expensive valuation appear to have weighed on the company's stock price. So, should investors enter the stock at these levels? Meanwhile, let's first look at its recently reported first-quarter performance and its growth prospects.

Goodfood Market's first-quarter performance

Goodfood Market posted a weak [first-quarter performance](#) last month, which fell short of analysts' expectations. For the first quarter, which ended on December 4, the company's revenue came in at \$77.8 million against analysts' expectations of \$80 million, while net losses came in higher at \$21.5 million against the expected \$15.6 million.

Year over year, the company's revenue fell by 15%, as the relaxation of COVID-19-related restrictions and increased vaccination lowered the customer demand, dragging its sales down. The decline in net sales led to operating deleverage in production and shipping costs. The increase in labour wages also contributed to a decrease in its gross margins from 32.3% to 24%.

Along with sales decline and lower gross margins, the increase in selling, general, and administrative expenses and higher depreciation and amortization expenses caused its net losses to increase. Goodfood Market's net losses increased from \$2.87 million to \$21.58 million during the quarter. Meanwhile, its financial position looks healthy, with cash and cash equivalents of \$104.8 million and the availability of a revolving credit facility.

Goodfood Market's growth prospects

More people are adopting online grocery shopping, given the convenience it provides. So, this shift has created a long-term growth potential for Goodfood Market. Amid the rising demand, the company is investing in strengthening its infrastructure to increase the speed of delivery. Last quarter, the company had introduced an on-demand grocery delivery service in Toronto and Montreal by opening two micro-fulfillment centers in respective cities. With just two months of initiating this service, the company had 13,000 active customers, with an annualized run rate of \$21 million.

Meanwhile, the company has planned to open 20 such micro-fulfillment centres across Canada to accelerate the expansion of its on-demand delivery service across the country. Meanwhile, the company is also working on expanding its product offering, strengthening its production capabilities, and geographically expanding its presence to drive growth. So, [the company's growth prospects look healthy](#).

Bottom line

Amid the steep correction, Goodfood Market is trading at an attractive valuation, with its forward price-to-sales multiple of 0.6. Meanwhile, analysts favour a "hold" rating, with five of the seven analysts covering the stock having issued a "hold" rating. The remaining two have given a "buy" rating. Analysts' consensus price target represents an upside potential of over 65%

With the noise surrounding the interest rate hike, I expect the stock to remain volatile in the near term. However, investors with over three years of investment horizon can accumulate the stock to earn superior returns.

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