Goodfood Stock: Time to Dump or Bulk Up?

Description

Goodfood Market (TSX:FOOD) has had a wild ride during the pandemic. It became an in-demand company that couldn't keep up with orders, hitting double-digit share prices in the process. Yet today, shares have fallen to 52-week lows, and could be headed to all-time lows in the near future.

But what's really going on with Goodfood stock? Is this drop warranted, or is it an opportunity? Let's take a look at this once incredibly popular stock.

A shifting business

Goodfood came into popularity during the pandemic as Canadians were forced to stay home and keep safe. Having meals delivered to your door became the perfect tool with the inability or desire to go to grocery stores.

Yet since then, Goodfood management realized there needed to be a shift. With vaccination rates rising, stores opening, and inflation rising, it's become harder and harder for the company to keep up. While the meal-kit business has proven profitable, the year-over-year growth certainly isn't what it was.

Now, Goodfood stock offers more than just meal kits. You can order groceries, breakfasts, and it now has an on-demand delivery service in some locations. Furthermore, it continues to expand its fulfillment network. But so far, investors don't think it's enough.

Why not?

There is uncertainty surrounding this shift in focus. However, analysts like to point out that despite that uncertainty, management remains successful in executions of the past. In fact, Goodfood has a lot of inspiration to look to. It remains a $176 million company, yet many of its global peers are in the billions. So it's simple: look to them for next steps.

The shift to grocery delivery and on-demand services is a stable driver of sales and earnings in the medium term, analysts note. But that takes cash, and while Goodfood has it now, long-term that may not be the case. So time will have to tell whether these investments prove fruitful. Hence the uncertainty among investors.

Management remains confident

Goodfood announced a $30-million public offering this week, with analysts cutting their targets slightly for the stock. Still, it remains at a target price of about $4 as of writing. That's a potential upside of 71% as of writing. Furthermore, it remains solidly in oversold territory at a 22.08 relative strength index, and trades at 2.59 times book value. But is that all good enough reason to buy?

In short: yes. Not that the stock doesn't have risk attached. There are still issues that investors should certainly be aware of. But if you're a long-term investor, the company look like a solid buy at these prices. It's frankly far below fair value, especially considering its long-term potential in the field of online grocery services. As it continues to expand with these micro-fulfillment centres, it's likely to also continue its growth as Canada's top meal-kit provider.

Shares of Goodfood stock are down 75% in the last year, and 42% year to date.

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