



Pet Valu Holdings: An Undervalued Growth Stock to Buy for September

Description

While buying individual stocks, you need to consider several factors. Ideally, these companies should be part of a rapidly expanding addressable market and gain traction over their peers. Further, stocks should trade at a reasonable valuation and enjoy a wide economic moat to consistently outpace the broader markets.

One such [undervalued growth stock](#) trading on the TSX is **Pet Valu Holdings** ([TSX:PET](#)). Let's see why Pet Valu stock should be part of your equity portfolio in 2022.

An overview of Pet Valu holdings

Canada's leading retailer of pet food and pet-related supplies, Pet Valu has over 600 corporate-owned or franchised locations in the country. Its stores offer more than 7,000 products that include a wide portfolio of premium and holistic proprietary brands.

Pet Valu now aims to grow its store count to over 1,200 outlets, drive same-store sales higher by growing its digital channels, and widen operating margins by investing in system modernization.

In Q2 2022, Pet Valu opened 13 new stores allowing it to increase sales by 25% year over year to \$228 million. Its same-store sales were up 21% in the June quarter, while adjusted EBITDA (earnings before interest, tax, depreciation, and amortization) surged 23% to \$52.1 million.

The company is forecast to open between 35 and 45 new stores this year, allowing it to create a strong risk-return profile as store opening costs should be offset by higher sales volumes. Pet Valu emphasized it is optimizing its omni-channel process to drive efficiency higher while customer retention is set to improve on the back of a robust loyalty program.

A report from Research and Markets states the Canadian pet food market stood at US\$3.3 billion in 2021 and is forecast to grow at an annual rate of 5.1% through 2027, providing Pet Valu enough room to grow its top line.

Is PET stock overvalued or undervalued?

Pet Valu is trading at [a market cap](#) of \$2.3 billion. The company went public in June 2021 and priced its IPO (initial public offering) at \$20 per share. PET stock price touched a record high of \$36.94 in December 2021 and is currently trading at \$33.36.

PET stock has gained over 50% since its IPO and is still trading at a discount to consensus price target estimates.

In 2022, Pet Valu forecasts revenue between \$912 million and \$928 million and expects same-store sales to grow between 13% and 15% year over year. Its adjusted net income per share is estimated between \$1.47 and \$1.51 this year.

So, PET stock is trading at less than three times forward sales and 22 times forward earnings, which is quite cheap given its growth estimates.

Analysts tracking the stock have a 12-month price target of \$42.5 for Pet Valu, which is almost 30% higher compared to its current trading price.

In addition to capital gains, Pet Valu also rewards investors with an annual dividend of \$0.24 per share, indicating a yield of 0.72%. The company's dividend has increased by 500%, given it paid investors a quarterly dividend of \$0.01 per share last November.

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araghunath

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