Jamieson Wellness (TSX:JWEL) Failed the Q3 Sniff Test

Description

Are savvy **Jamieson Wellness** (TSX:JWEL) shareholders to blame for the one-month 20% drop in stock price? There's a lot of head scratching after the blazing performance from the moment the company issued its Initial Public Offering (IPO) in July 2017.

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A brief history on this health, wellness, and supplements company shows that Jamieson was well recognized even before trading publicly on the TSX. Jamieson was one of Canada's 2016 Most Trusted Health & Beauty Brands in Fish Oil or Omega-3 Supplements, according to a large national consumer study. Such accolades repeat, consistently.

The stock stormed out of the gates until January 2018, almost exactly six months from the IPO date — the time frame when insiders often sell shares to lock in profits — during which time the stock dropped from $22.55 to $20.25 per share. Nearly a year later, the share price is down further, trying to hold above $19 per share at the time of writing. The market is calibrating a completely different price multiple — an all too familiar phenomenon when a growth stock hits a speed bump.

A fellow Fool contributor did a great job of digging into the most recent Q3 earnings report. Highlights included strong international sales as well as domestic sales for the main Jamieson brand products.

Specialty brands were a Q3 sore spot, and this should not be dismissed, as this segment accounts for one-fifth of total revenues. The specialty brands are newer ventures stemming from previous acquisitions. This includes women's health, vegan, and sport products.

Management stated that "specialty brand volumes weakened at an accelerated rate compared to prior quarters resulting in a decline of 12.3%." This prompted several analysts on the earnings call to ask for details. Management attributed this to poor sales synergies and mapped out their plan to improve on this. There is now a backlog owing to delays in raw materials, an anticipated $5 million (out of $85 million) to be added to the fourth quarter.

Who needs fish oil and vitamin A?

Some of Strategic Partners hiccups were due to "delayed receipt of customer supplied fish oil and vitamin A." Futures Market reports from 2018 speculate that global fish oil demand is expected to climb considerably, as reflected by US$2.2 billion of sales two years ago to an expected US$3.7 billion by 2025, or roughly a 6% compound annual growth rate. These numbers suggest that Jamieson's supply-side blip was an aberration. It also shows that Jamieson can grow business organically by riding the global fish oil tailwind.

Meanwhile, 46% of the world's vitamins export market comes from China (the next largest exporter being the United States). Jamieson must be sourcing some of its ingredients from China only to sell it back to Chinese consumers. It's the sort of international tit for tat that Prime Minister Trudeau was calling on previously during photo ops with Jack Ma. If Jamieson can continue to execute the enormous Chinese consumer market by continuing the strong presence on Tmall — the e-commerce platform for **Alibaba Group Holding Limited**, then this growth could help keep Jamieson as a top TSX performer into 2019.

Jamieson is, quietly, a Canadian household name. To prove this, open your pantry or medicine cabinet and find at least one product. Watch this stock closely as investors decide whether they want to get back into the supplements game to pump up their portfolios.

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