This High-Margin Business Is Priced for Growth

Description

Are you considering **Jamieson Wellness** (TSX:JWEL) to boost the growth of your portfolio?

In early February, I discussed that it may be an excellent opportunity to buy Jamieson stock on the dip before it reported its earnings.

The stock retreated lower and traded at about $17.80 per share in the days before the earnings report and has appreciated more than 11% since then.

Let's review Jamieson's reported results. Note that I showed the adjusted metrics below to normalize the comparison of the results.

Q4 results

Here are some key metrics compared to the same period in 2017:

	Q4 2017	Q4 2018	Change
Revenue	$84.3 million	$99.1 million	17.6%
Earnings from operations	$14.9 million	$17.1 million	14.5%
Adjusted net income	$9.7 million	$12.2 million	25.3%

Adjusted EBITDA	$18.8 million	$22.9 million	21.7%
Adjusted diluted earnings per share	$0.25	$0.31	24%

Excluding the new rules for revenue recognition (IFRS 15), revenue growth would have been higher — rising 22%. In either case, for the quarter, Jamieson showed strong sales and earnings growth with little dilution.

Year over year, Jamieson's gross profit margin and operating margin declined from 36.6% to 35.5% and 17.7% to 17.2%, respectively, but its adjusted EBITDA margin improved from 22.4% to 23.1%.

Jamieson's 2018 results

Here are Jamieson's full-year results compared to 2017.

	2017	2018	Change
Revenue	$300.6 million	$319.8 million	6.3%
Earnings from operations	$44.9 million	$50.1 million	11.5%
Adjusted net income	$27.6 million	$33.7 million	22.3%
Adjusted EBITDA	$61.5 million	$67.6 million	10%
Adjusted diluted earnings per share	$0.70	$0.85	21.4%

Excluding the new rules for revenue recognition, revenue growth would have been higher — rising 11%.

Year over year, Jamieson's gross profit margin, operating margin, and adjusted EBITDA margin improved from 34.9% to 36.1%, 14.9% to 15.7%, and 20.5% to 21.1%, respectively.

A business overview

Jamieson already has a leading position in manufacturing, distributing, and marketing branded natural healthcare products, including vitamins, minerals, and supplements in Canada. It has a 25% market share at food, drug, and mass stores, such as Superstore and London Drugs. It also sells online through **Amazon**, **Costco**, and others.

Jamieson offers a diversified range of premium products across multiple distribution channels. This branded segment contributes to about 80% of revenue.

Jamieson also partners with manufacturers, select blue-chip consumer health companies, and retailers around the world, aiming to leverage infrastructure and reduce costs. This segment contributes to about 20% of revenue.

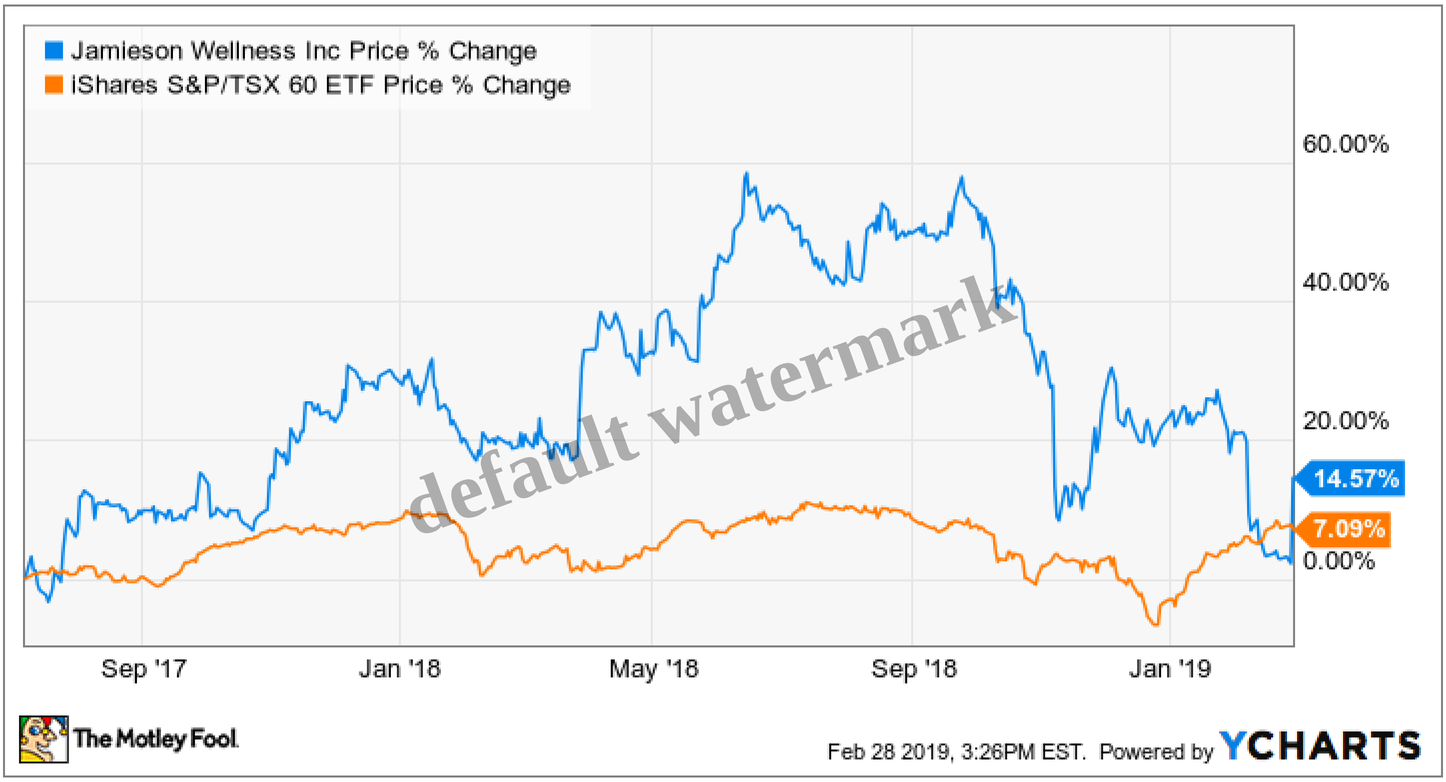
2019 outlook

Jamieson expects its branded and strategic partners segments to grow 5-9% and 5-8%, respectively.

In order to grow internationally and to support its e-commerce initiatives, the company expects to increase selling, general and administrative costs (SG&A) by 11-15%. This aligns with the SG&A growth of about 16% in 2018.

Investor takeaway

Jamieson's short trading history from 2017 indicates a normalized price-to-earnings ratio of more than 28. At $19.84 as of writing, it trades at below 20 times 2019 earnings. So, it's priced for double-digit growth and is a relatively higher-risk stock.



JWEL data by YCharts. JWEL's price action since inception shows it's much more volatile than the Canadian stock market.

If Jamieson continues on its growth path, it can trade as high as $25 within a year for about 26% near-term upside potential. If it shows hiccups in its growth path, it will fall to a lower multiple. If it falls to the $18 level or lower, it'd be a safer entry point for growth.

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