Contrarians: A Severely Undervalued “China Stock” That Could Make You Rich

Description

Insiders at **Jamieson Wellness** (TSX:JWEL) have been eating their own cooking of late, with approximately $2,250,000 in insider buys (around $2.1 million net) over the past year.

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You may be thinking a measly $2 million in buys isn’t that remarkable. When you consider the fact that fewer firms have net positive insider buying activities of late thanks in part to the choppy state of the global markets and Trump’s escalating trade war with China, such positive net insider buys could reveal clues as to what could be on the horizon over the near to medium term.

When it comes to Jamieson, the value proposition is hidden in plain sight. The stock has fallen too far, too fast, and although the name is reliant on China for its next leg of growth, I think the pessimism is overblown beyond proportion such that further U.S.-China tensions will have a minimal impact on Jamieson stock.

While Jamieson isn’t exactly what you’d consider a “China stock,” forward-looking growth investors are on edge over the rising odds of a potential boycott of Canadian products in favour of “made-in-China” alternatives. While such a shifting consumer preference towards domestic brands may have a negative impact on Jamieson over the medium term, I believe any potential hurdles placed ahead of Jamieson’s Chinese expansion will be nothing more than a blip in the grander scheme of things.

You see, Jamieson is still a top foreign brand in China. And although a preference for Chinese-made vitamins, minerals, and supplements may prevail in these trade-war-ridden times, hurting Jamieson’s growth prospects in the process, I believe Chinese consumers will flock back to their favourite international brands as the trade war inevitably comes to an end.

In the meantime, Jamieson is continuing to do everything under its control to prepare for its ambitious expansion into the Chinese market. In the last quarter, China was a huge reason as to why Jamieson’s international sales grew by 29.3%. As Jamieson continues rolling out new products through various channels throughout the year, I expect even more robust growth, even with the trade war and a continued rise in protectionism.

Chinese (and Canadian) consumers love Jamieson, because it's a trusted brand that's been built over the course of nearly a century. When it comes to supplements and your health, the last thing you want is a cheap, unknown brand that could have more filler than the supplement that's actually on the product's label. So, in that regard, Jamieson does a have a moat, despite competing in a commoditized industry.

Foolish takeaway

Even with the China headwinds, Jamieson is still managing to post impressive numbers. As the company continues its expansion into China, I expect pessimistic analysts will be caught off guard. The stock trades at 2.4 times sales, which is pretty ridiculous given Jamieson is capable of high double-digit growth numbers. Insiders realize that its Chinese expansion will be a success in spite of the dire economic circumstances.

Warren Buffett doesn't care about the state of the economy and things that are out of the control of companies. He merely buys wonderful businesses when the price is right, independent of what economists are forecasting. I think Foolish investors ought to adopt this strategy and scoop up battered firms like Jamieson in spite of the disturbing macro conditions that have been set. That's just another way to be contrarian and bag a bargain, after all!

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Date
2025/07/21
Date Created
2019/05/23
Author
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