Canadians: This 1 TSX Stock Is Seriously Overvalued!

Description

Jamieson (TSX:JWEL) is a Canadian-based company engaged in the manufacturing, development, distribution, sales and marketing of branded and customer-branded health products for humans including vitamins, herbal and mineral nutritional supplements.

The company has manufacturing facilities located in Windsor, Ontario and Toronto, Ontario. The company reports a market capitalization of $988 million with a 52-week high of $26.48 and a 52-week low of $17.38.

Intrinsic price

Based on my calculations using a discounted cash flow valuation model, I determined that Jamieson has an intrinsic value of $11.06 per share. Assuming less than average industry growth, the intrinsic value would be $9.41 per share, and higher-than-average industry growth would result in an intrinsic value of $13.28 per share.

At the current share price of $25.38, I believe Jamieson is significantly overvalued. Investors looking to add a vitamin manufacturing company to their RRSP or TFSA should avoid Jamieson for now.

That said, a bearish 2020 could push the share price below intrinsic value whereby it would make sense for investors to buy in.

Jamieson has an enterprise value of $597 million, which represents the theoretical price a buyer would pay for all of Jamieson’s outstanding shares plus its debt.

One of the good things about Jamieson is its low leverage with debt at 14.4% of total capital versus equity at 85.6% of total capital.

Financial highlights

For the nine months ended September 30, 2019, the company reported an acceptable balance sheet with negative retained earnings of $3.2 million (up from negative $10.7 million at December 31, 2018).

Although this is not ideal, there is evidence that suggests Jamieson is consistently profitable, which means it is very close to achieving positive retained earnings. This is a good sign for investors, as the company will be able to reinvest the surpluses in itself.

Overall revenues are up year over year from $221 million in 2018 to $242 million in 2019. The company has done a good job in keeping SG&A expenses under control with a modest increase from $48 million to $52 million, which has resulted in pretax net income of $24 million for the period (up from $23 million in 2018).

The company takes a proactive approach to debt management, as evidenced by the $28 million repayment to its credit facilities in 2019 following a $17 million repayment in 2018. This is offset by draws on credit facilities of $33 million in 2019 and $24 million in 2018.

Jamieson ended the period with $4 million in cash, which is not a significant amount but it suggests senior management is effective in anticipating its cash inflows and outflows for the year.

Foolish takeaway

Investors looking to buy shares of a vitamin manufacturer should follow Jamieson’s share price throughout the next recession and buy the dip.

I respectively disagree with the overtly optimistic sentiment shared by fellow fools Joey Frenette and Brad Macintosh. With a current share price of $25.38 and an intrinsic value of $11.06, there is clearly a discrepancy between what the markets believe Jamieson is worth and what the company should be worth.

Despite the company’s negative retained earnings, however, the company reports increasing revenues and a solid debt-management strategy, which would make it a good investment when the share price dips below its intrinsic value.

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Date
2025/07/06
Date Created
2019/12/18
Author
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