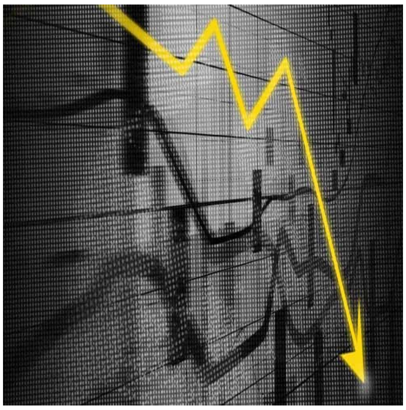

This Wonderful Growth Stock Could Plunge

Description

Even the most wonderful growth business in the world can be a sell if the price isn't right. Investors have been flocking to pandemic-resilient growth stocks, paying hefty prices of admission, as they look to equip their portfolios with the right names to weather the COVID-19 crisis.

Canadian vitamin maker **Jamieson Wellness** (TSX:JWEL) is one of the stocks that I've been pounding the table on ever since it had a relatively quiet IPO a few years back. The nearly 100-year-old company's best growth days are still ahead of it now that it has the funding it needs to take advantage of global expansion opportunities and produce intriguing new products in the vitamins, minerals, and supplements (VMS) market, all while leveraging a mighty brand name that's been built over the course of many generations.

Amid the COVID-19 pandemic, many consumers have been paying careful attention to their health. They have an increased appetite for various supplements to help boost their immune systems. As the secular trend towards health and wellness continues, there's no question that Jamieson has a lot of growth levers that it can pull for decades to come.

Jamieson has been remarkably resilient amid the pandemic

Jamieson's resilience amid this pandemic is nothing short of remarkable. And while I'm a huge fan of the Jamieson brand (I view it as having a wide moat given the assurance of quality you're getting from Jamieson's unmistakable green-capped products), the valuation looks frothy in the mid- to high $30 levels. Going into year-end, I think there's a high probability that COVID-19 losers will lead the next leg of the market rally, while the winners look to take several steps back.

You see, many of the pandemic-resilient plays, like Jamieson, have likely overshot their intrinsic value ranges. That calls for a correction, and given Jamieson's massive climb, I'd say the correction could have the potential to evolve into a severe plunge that could cause shares to flirt with a bear market, even as broader markets continue to inch higher.

Great fundamentals, expensive stock

I don’t view visible dents in Jamieson’s armour, nor any negative catalysts, as what will cause Jamieson to pull back. The fundamentals have arguably never been this strong. My concerns with the name are solely based on valuation, which, I believe, has become more than frothy.

At the time of writing, Jamieson stock trades at a staggering 48.1 times trailing earnings, 41.8 times cash flow, 4.2 times sales, and 5.5 times book value. For a company that’s averaged 12% in revenue growth over the last three years, that’s pretty expensive, even given the compelling long-term story that’s driven by its international expansion (China) and the potential for higher-margin new product lines.

Foolish takeaway

Simply put, the bar is set a bit too high right now. Jamieson has been on a tear since April 2019 and is likely to surrender a small chunk of the gains in the event of a broader rotation out of pandemic-resilient growth into COVID-hit value stocks.

Now, Jamieson is unlikely to take too big a hit to the chin amid this recession. People will still reach for the green-capped vitamins without thinking twice about it. However, I’d be more compelled to initiate a position at around $27, where there’s a strong level of support.

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