



Should You Buy Richelieu Hardware Ltd. Before its Earnings Report Release?

Description

Richelieu Hardware Ltd. ([TSX:RCH](#)) is reporting its second-quarter earnings results on Thursday, and analysts will be looking for further signs of growth. First, let's take a look at its business.

The business

Richelieu Hardware is a small-cap company with a market capitalization of \$1.2 billion. It imports and distributes specialty hardware and complementary products.

The company has close to 70,000 North American customers, including kitchen and bathroom cabinet manufacturers, kitchen dealers, residential and commercial woodworkers, home furnishing manufacturers, office and ready-to-assemble furniture manufacturers, renovation superstore chains, and purchasing groups with over 6,000 hardware retailers.

Although Richelieu Hardware pays a dividend with a yield less than 1%, the growth potential of that small dividend shouldn't be ignored. Still, if you decide to invest in the business, you aren't doing it for the income, but for its growth.

Dividend growth supported by business growth

Since 2004 Richelieu Hardware's quarterly dividend increased from \$0.04 per share to \$0.15 per share today. In that 11-year period, its dividend grew at a compounded annual growth rate (CAGR) of 12.8%.

In the 10 years from 2004 Richelieu Hardware's earnings per share (EPS) increased from \$1.12 to \$2.64, a CAGR of 9%. So, its dividends grew at a healthy pace with support from earnings growth and a bit of payout ratio expansion.

Currently, its payout ratio remains sustainable at 21% with the past few years' payout ratio ranging between 20-24%. Future dividend growth would depend mainly on its business performance versus payout ratio expansion.

Business health in different environments

Year Sales Growth EPS Growth

2007	—	—
2008	1.1%	6.8%
2009	-3.9%	-11.5%
2010	5.4%	31.2%
2011	17.2%	2.8%
2012	8%	15.6%
2013	3.7%	3.3%
2014	10.2%	18.5%

Richelieu Hardware is in the consumer cyclical business. As shown in 2009, its sales and earnings are negatively affected by recessions. However, in 2010 its earnings bounced back beautifully as the economy recovered.

Conclusion: should you invest today?

I'm not encouraging the timing of the market, but around earnings report time, the market can get especially emotional about a company. Companies could go up or down by 10% in one day. Small-cap companies can be much more volatile than large caps.

Adding the fact that the company trades at an expensive multiple of over 22 at about \$62 per share. If earnings estimates aren't met, Richelieu Hardware's share price will likely decline as well.

In the recent past the company has traded between the multiple of 16.5-19.5, which would indicate a share price roughly between \$48-57.

In conclusion, I think investors could get a fairer price in the future. So, investors should wait to get in on this small-growth stock, and certainly shouldn't pay more than \$58 per share.

CATEGORY

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