



## Should You Buy Richelieu Hardware Ltd.?

### Description

**Richelieu Hardware Ltd.** ([TSX:RCH](#)) is reporting its third-quarter earnings results on Thursday October 1st, 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 close to \$1.3 billion. It imports and distributes specialty hardware and complementary products.

The company has 66 distribution centres across North America, as well as 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 puny dividend of less than 1%, the growth potential of that small dividend shouldn't be ignored. If you invest in the business, you probably 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 decade since, Richelieu Hardware's earnings per share (EPS) increased from \$1.12 to \$2.63, 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 around 22% 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.

### **A cyclical business**

Richelieu Hardware is in a cyclical business. During the last recession from 2008 to 2009, its EPS decreased by 11.5%. However, as the economy recovered from 2010 to 2014, its earnings bounced back beautifully and increased at a CAGR of 9.8% over that period.

### **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. The company trades at an expensive multiple of close to 23 at under \$66 per share, although that multiple is somewhat justified by its recent business performance.

In the first half of the year, the company posted sales growth of 16.2% and net earnings growth of 13.6%. Still, if earnings estimates aren't met, Richelieu Hardware's share price will likely decline.

For that kind of double-digit growth, I think paying a multiple of 16.5-19.5 makes better sense. That multiple range implies a share price roughly between \$49-58. 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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### **Author**

kayng

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