Richelieu Hardware Ltd.: A Little-Known Company With a Well-Defined, Stable Business Investors Can Count On

Description

With a market capitalization of $1.7 billion, **Richelieu Hardware Ltd.** (TSX:RCH) is by no means a huge company. But the company is a leading North American distributor, importer, and manufacturer of specialty hardware and complementary products. Its top-notch results are worthy of our attention.

Strong top- and bottom-line growth

In 2016, revenue increased 12.6%, of which 10.4% was from organic growth and 2.2% was from acquisitions. Net earnings increased 7%, partly because EBITDA margins fell slightly to 11.2% versus 11.7% in 2015 due to lower margin sales coming from the U.S. and lower margins of certain acquisitions. EPS increased 8.1%.

Results showed some slowing in the first quarter of 2017, as revenue increased 3.7% (2.3% from organic growth and 1.4% from acquisitions), but on a comparable exchange-rate basis, the company achieved a 5.7% growth in revenue.

Exposure to the U.S. housing recovery

In the first quarter of 2017, the U.S. accounted for 36% of the company's total sales. This compares to 32% of sales in the same period last year. The company made a bunch of acquisitions in the U.S. in the last few years with the goal of capitalizing on the recovering U.S. housing market.

Strong balance sheet

The company has essentially no debt on its balance sheet and $43 million in cash. This is a major reason why, despite the company's lofty valuation, I would recommend its shares.

Putting its strong financial position to use

Although the stock's valuation is quite lofty, I would say this is a stock I wouldn't object to buying at these levels because it is in the enviable position of having the financial strength to fund future acquisitions, share buybacks, and/or dividend increases.

In fact, in 2016, the company instituted a 6.4% dividend increase. So, while the dividend yield of 0.79% is still very low, in my view, it will continue to creep up as organic growth and growth via acquisitions continue to drive earnings. Furthermore, the payout ratio remains good at under 20%.

The company also used its financial strength to make four strategic acquisitions in the U.S. and to buy back just over one million shares. Investors can expect this to continue as the company pursues its growth strategy.

In summary

So, while the stock trades at a P/E ratio of 26.8 times and a P/B ratio of 4.2 times, the fact is that as long as I've followed this stock, which is a long time, the valuation was usually quite lofty.

However, it has been upheld due to the company's superior performance, as evidenced by its consistent strategy that has yielded strong growth, strong returns (ROE of 16.6% and ROI of 16.4%), strong cash flow generation, and the maintenance of a strong balance sheet. The company has the flexibility needed to thrive in every market environment.

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