The Best Is Yet to Come for This High-Quality Growth Stock

Description

With a market capitalization of $1.9 billion, **Richelieu Hardware Ltd.** (TSX:RCH) is, by no means, a small company.

The company is a leading North American distributor, importer, and manufacturer of specialty hardware and complementary products, and it has a history of stable and top-notch results that are worthy of our attention.

Richelieu Hardware shares have had a very good run and have given investors a return of 90% in the last three years. It pays a small dividend, but the story here is about growth.

So, why should investors care?

Well, for one, we can expect the dividend to continue to rise.

Although the stock's valuation is on the rich side, I would say that this is a stock I wouldn't object to buying at these valuation 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 0.70% 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%.

Strong results

Third-quarter 2017 sales increased 15% (6.9% organic growth and 9.5% from acquisitions), as the company continues on its path of consolidating the market and gaining market share in the U.S. and Canada.

Strong balance sheet

The company has essentially no debt on its balance sheet and has $27 million in cash. And this is a major reason why, despite the company's lofty valuation, I would recommend its shares.

The ability to continue to make acquisitions without taking too much financial risk has been a hallmark of the company's success.

Strong returns

Richelieu Hardware has been and continues to be a very well-run business that generates superior returns and has proven to be a good steward of investors' capital.

This is evidenced by its consistent strategy of growth, through acquisitions and organically, which has yielded strong growth, strong returns (return on equity of 16.7% and return on investment of 16.6%), strong cash flow generation, and the maintenance of a strong balance sheet, which has given the company the flexibility needed to thrive in every market environment.

Exposure to the U.S. housing recovery

The U.S. accounts for 32% of the company's total sales, and this has been increasing after 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.

In summary, steady, profitable, and consistent growth has driven this company and made many investors very happy.

And unlike some other stocks that are trading on hype and dreams, like **Canopy Growth Corp**. (TSX:WEED), which is trading at over 40 times sales with no earnings, we can be confident that we are investing and not speculating.

Investing in Richelieu Hardware is investing in a real, proven business with a track record and a competitive edge. We can expect this to continue.

CATEGORY

1. Dividend Stocks
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