



Reno Season Has Arrived: These 2 Stocks Belong in Your Portfolio

Description

The [spring season](#) often ushers in increased activity for home buying, which will be welcome in a struggling 2018 real estate market. The season also encourages homeowners to invest in their properties and take on new projects. This results in increased activity for home hardware companies that rely on this activity and have seen booming numbers over the past decade.

Will Canadians continue to invest in their homes with more uncertainty in the market? **Bank of Montreal** Senior Economist Robert Kavcic said that the broader market conditions will continue to display weakness in the spring and summer months as the industry adjusts to new regulations and rising interest rates. Sales at building material, garden equipment, and supplies dealers [rose 2.1% in February 2018](#) after three consecutive monthly declines.

Let's take a look at two stocks that could rise if this trend continues into the spring and summer.

Richelieu Hardware Ltd. ([TSX:RCH](#))

Richelieu Hardware is a Montreal-based company that specializes in hardware and accompanying products. Shares of Richelieu have dropped 18.4% in 2018 as of close on May 11. The stock hit an all-time high of \$35.64 in November 2017, but has since suffered steady declines. Richelieu released its first-quarter results on April 5.

Total sales rose 13.3% from Q1 2017 to \$222 million, with 6.2% from internal growth. Sales surged in the U.S. and Canada, increasing 17% and 14.4%, respectively. This was especially encouraging as Q1 is historically the weakest period of the year. Net earnings climbed 5.9% to \$12.7 million, or \$0.22 per diluted share. The board of directors also approved a dividend payment of \$0.06 per share, representing a 0.8% dividend yield.

Sales to manufacturers and retailers climbed 15.3% and 11.4% in Canada. Cash flows from operating activities amounted to \$16.2 million compared to \$14.9 million in the prior year. Richelieu is an attractive option after a steep slide since late 2017, although it offers only a modest dividend payout.

Hardwoods Distribution Inc. (TSX:HDI)

Hardwoods Distribution is a Langley-based company engaged in the distribution of hardwood lumber and related sheet wood and specialty products. Shares have dropped 6.9% in 2018 as of close on May 11. However, the stock surged 5.92% on the same day as the company released its first-quarter results.

Hardwoods saw consolidated sales climb 4.4% from Q1 2017 to \$270.8 million with sales from US operations growing 9.6%. The company received a boost from the US *Tax Cuts and Jobs Act of 2017*. On a sales-per-day basis, Canadian sales rose 4.4%, and adjusted EBITDA inched down to \$13.2 million compared to \$14 million in the prior year. The company also approved a quarterly dividend of \$0.0725 per share, thereby representing a 1.5% dividend yield.

The lower tax rate from the aforementioned legislation increased adjusted earnings per share by \$0.04, or 10.8%. However, the company will likely see gross margins take a hit from duties imposed on Chinese plywood into the United States. Hardwoods Distribution expects that adjustments to the supply chain will be made up by North American supply, which should aid margins in the latter half of 2018.

The company is projecting organic market growth in the low-to-mid single digits for its end-markets and products in 2018. The stock is an attractive buy at its current pricing.

CATEGORY

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2. TSX:RCH (Richelieu Hardware Ltd.)

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