



Buy this Boring Stock and Become a Billionaire

Description

Hardwoods Distribution (TSE: HDI) is a supplier of hardwood lumber, plywood, medium density fiberboard, melamine, particle boards, and specialty products to the manufacturing markets in North America.

Hardwoods Distribution is the most profitable wholesale distributor of non-structural architectural building products in Canada and United States.

Headquartered in Langley, British Columbia, Hardwoods Distribution was originally run by the Sauder family and has been in operation for over 90 years.

The company appears very undervalued with a price-to-earnings ratio of 8.16 times earnings and a market cap of \$264 million. Hardwoods Distribution operates in the non-structural architectural building products distribution industry.

Key characteristics of the industry are to compete product range and quality, delivery speed, availability of credit and strong distributor relationships.

Successful suppliers can create supply stickiness through quality of service and a wide range of products, while offering rock bottom pricing. Low barriers to entry have resulted in a fragmented industry with many several regional distributors. High capital requirements and technical knowledge would stop competitors from entering the industry.

Limited opportunities for differentiation results in slender margins while large companies benefit from pricing advantages such as economies of scale in production. The real estate market is the biggest driver of the industry, followed by home improvement and commercial construction.

Hardwoods Distribution is a link between hardwood manufacturers and commercial construction suppliers. It has been growing strongly, both through inorganic growth and mergers, expanding the company's distribution network in neglected locations.

Hardwoods Distribution has an excellent management team as evidenced by the company's above par

operational performance and market penetration. The company controls risk through product and distribution diversification, extensive market reach, and loyal customer base.

Hardwoods Distribution has five primary competitors: Huttig Building Products, Goodfellow, Taiga Building Products, CanWel Building Materials and BlueLinx. The company has managed to maintain an impressive level of profitability and low leverage compared to other companies in the industry, demonstrating Hardwoods Distribution's strong financial position.

Hardwoods Distribution operates with minimal business risk and manages it by diversifying the company's product portfolio. The company is well respected by customers and competitors and has developed an economic moat by product differentiation.

This sustainable advantage could very well be maintained over the long-term and shareholders could benefit by the company's strong capital allocation skills.

In the long term, however, a risk that the industry faces is due to low capital requirements to enter the hardwood industry, the company's moat could be threatened by new corporations or smaller players who pursue a similar business plan.

Hardwoods Distribution will have to focus on the customer and build relationships to maintain the company's current level of profitability.

Hardwoods Distribution has very low leverage and debt that consists mainly of off-balance sheet leases. However, the company does maintain a war chest in the form of \$130 million in revolving credit to take advantage of big acquisitions or opportunistic buybacks.

The company has a return on invested capital of 6.6% which is higher than Hardwood's competitors. With a proven ability to increase market share and a superb management team, Hardwoods Distribution offers an incredible opportunity at current prices.

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