



## 1 TSX Stock to Save Your Portfolio From the COVID-19 Uncertainties

### Description

Since February, the COVID-19 outbreak-related updates and its effect on businesses have been investors' key focus. As the second-quarter earnings season has just kicked off, many companies have started warning investors about the pandemic's negative impact on their business operations.

In such times, investors must have some stocks in their portfolio that can minimize the pandemic's adverse impact on their investments. In this article, we'll take a closer look at one such stock:

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

### Rallying after earnings event

In my [recent article on July 7, I highlighted that Richelieu Hardware's stock](#) could be readying for a price rally after its earnings event. The company [released](#) its second-quarter results on July 9. And since the event, its stock has already risen by 9% as compared to only 1.8% in the **S&P/TSX Composite Index**.

In the quarter ended May 31, 2020, the company crushed Bay Street analysts' earnings estimates by a wide margin. Richelieu Hardware registered an 8.8% year-over-year (YoY) decline in its adjusted earnings for the quarter to \$0.31 per share. But it was nearly double as compared to analysts' earnings expectations of \$0.16 per share.

While its revenue fell by 11.7% YoY to \$248 million, it managed to beat estimates of \$227.7 million. In the first half of fiscal 2020, the company's total sales have risen by 1.9% as compared to the same period of fiscal 2019.

Richelieu Hardware acquired three North American companies in the first quarter. Interestingly, its sales from these newly acquired businesses rose by 6.6% YoY in the second quarter. It clearly reflects the positive results of the continued active acquisition efforts and decisions by Richelieu Hardware's management.

In May and June, the company also saw major sales gains in the retailers and renovation superstores

segments after a decline in April.

## Rising profitability

To add optimism, Richelieu's adjusted EBITDA rose by 10% YoY to \$33.8 million in the three months ended May 2020. It was nearly 61% higher as compared to Bay Street estimates. With this, Richelieu Hardware's adjusted EBITDA margin expanded to 13.6% in the second quarter as compared to 10.9% a year ago.

While a \$3.2 million government grant helped the company improve its profitability in the last quarter, its EBITDA margin also slightly improved, even after excluding these grants.

Similarly, its bottom line margin stood at 7.1% for the quarter — stronger than its fiscal 2019 adjusted net margin of 6.5%.

## Foolish takeaway

In the second quarter, Richelieu Hardware's sales remained much higher than expected —especially in retailers and renovation superstores segments. I expect these sales trends to continue as more businesses reopen in the coming months.

Also, its improving profitability despite the ongoing pandemic makes Richelieu Hardware's stock really attractive right now. The stock has recently risen above major resistance near \$30, and \$30 level should act as key support going forward.

For all the positive reasons that we have discussed above, I expect Richelieu Hardware's stock to outperform the broader market by a wide margin in the coming quarters. You may consider buying its stock on any dip towards \$30 support level.

### CATEGORY

1. Coronavirus
2. Investing

### TICKERS GLOBAL

1. TSX:RCH (Richelieu Hardware Ltd.)

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