TFSA Investors: This Value Stock Could Double

Description

Hardwoods Distribution (TSX:HDI) is the largest distributor of architectural building products in North America. The company operates over 60 distribution facilities organized into 12 business units. Each unit serves as the primary distribution facility to support a number of other smaller branches within a geographic region that serve as satellite distribution facilities. Approximately 90% of the company's sales are generated in the United States and the balance in Canada.

Innovative cost savings strategy

The company's Paxton and Rugby business units have a significant focus on the commercial customer segment. The company saves money by not owning delivery vehicles. It contracts out all deliveries with independently owned trucking operators. Hardwoods Distribution employs drivers to make deliveries to customers, utilizing a combination of owned and leased tractors and trailers.

Hardwoods Distribution has expanded the company's facilities through both acquisitions and organic growth. The company minimizes start up costs for a new branch which are generally limited to tenant improvements, hiring of new employees and inventory. In addition to the company's distribution operations, it owns HMI, a fully integrated producer of high-grade hardwood.

Strategic differentiation

HMI manufactures high-grade hardwood lumber. This division sells product to distributors and 7 large manufacturers throughout North America as well as in Europe and Asia. HMI purchases standing timber rights from landowners and uses third party contractors to log the standing timber.

Hardwoods Distribution supports the company's brands in the marketplace with professional sales training and continuous sales support, global sourcing capabilities and compliance services. The company's competitors do not have Hardwoods Distribution's size and scale.

Geographic diversification

The company is a market leader in a fragmented industry. Hardwoods Distribution's North American footprint allows it to provide frequent deliveries to a large number of geographically dispersed customers. Most of the company's competitors operate from a single location or a few branches in a single geographic region and cannot offer a similar range and consistent quality of architectural building products, frequency of deliveries and customer service.

The company sell products to approximately 40,000 active customers. Hardwoods Distribution's relationships with customers have been developed by the company's focus on ensuring excellent customer service, competitive pricing and flexible credit policies. The company's customers are engaged in a diverse range of manufacturing activities.

Efficient supplier relationships

The company is able to negotiate purchases of large quantities of lumber on competitive terms. Hardwoods Distribution's buying strength, combined with the company's broad and decentralized operating structure, enables it to customize product sourcing for quality, flexibility and price advantage.

Excellent financial performance

The company generally pays suppliers within 10 to 25 days to take advantage of discounts available to it, while providing favourable credit terms to customers. The company's bad debt net of recoveries as a percentage of sales has decreased to just 0.2%.

The company has developed an entrepreneurial business culture that encourages employees at all levels to think and act like owners. Hardwood Distribution is increasing market share in the United States by leveraging the company's platform and significant resources to create competitive advantages. The company is also employing technology-enabled solutions, which should serve it well.

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