DSR STOCK CARD

11/30/2022

RICHELIEU HARDWARE (RCH.TO)

Business Model

Richelieu Hardware Ltd is a Canada-based company that imports, manufactures, and distributes specialty hardware and complementary products. Headquartered in Montreal, the company operates across Canada and the eastern and midwestern regions of the United States. The majority of the company's sales are derived from its operations in Canada. Richelieu's products include furniture, glass, decorative, window, and door hardware, lighting systems, and kitchen and closet storage. The firm primarily serves home furnishing manufacturers, residential and commercial woodworkers, hardware retailers, and renovation superstores.

The Company in a Nutshell

- Canadian sales are about 3 times that of US sales.
- Richelieu offers over 100,000 products and utilizes 100+ distribution centers to distribute them.
- Many concerns arise around potential trade wars and tariff applications with the US.

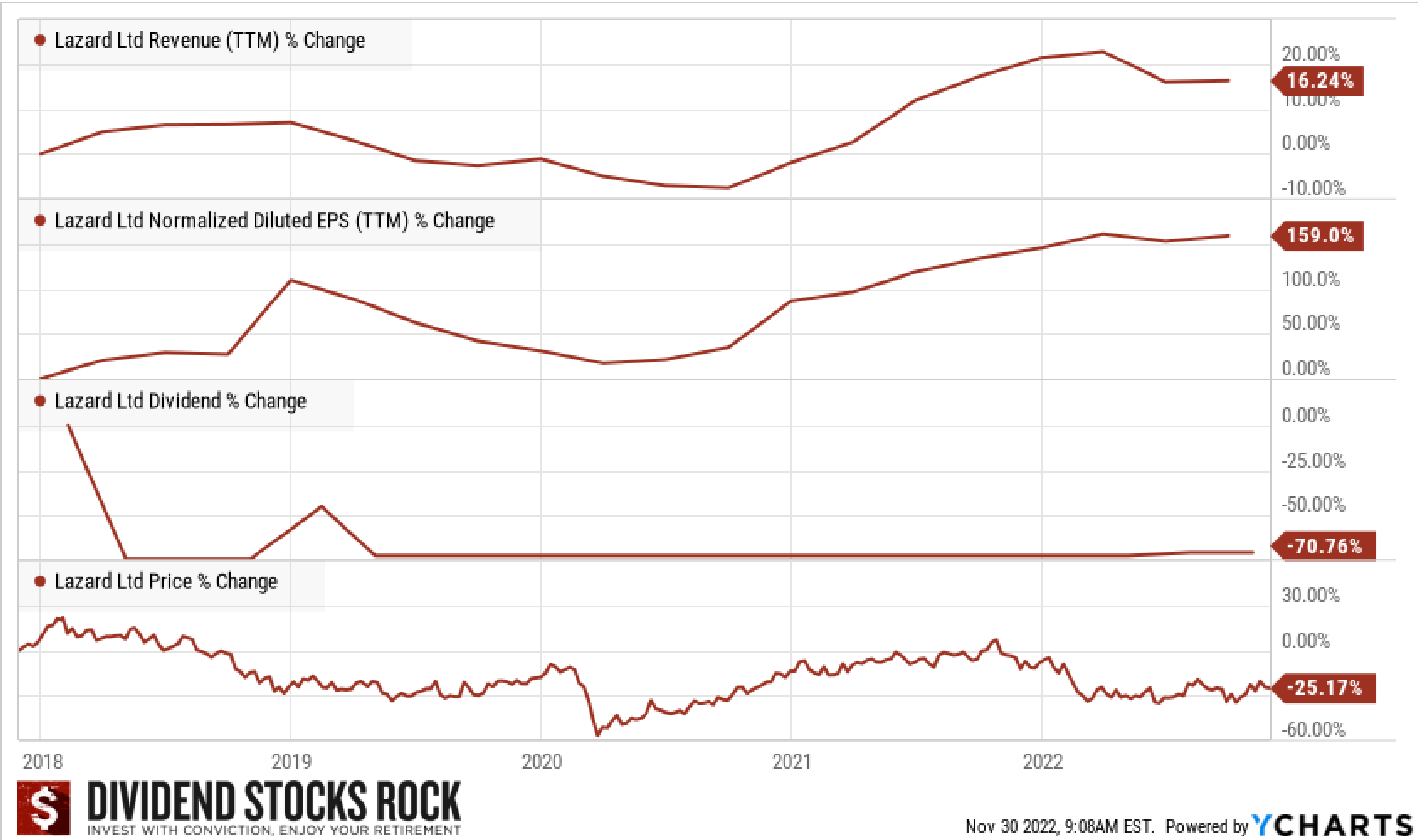
Investment Thesis

Instead of incurring the risk of operating retail stores, Richelieu is selling hardware goods to superstores such as Lowe’s (LOW) and Home Depot (HD). RCH grows by acquisition and recently crossed the mark of $1billion in sales. You will obviously not invest in RCH for its dividend yield, but rather for its growth potential. The distribution market remains fragmented, but RCH has demonstrated its growth potential. During the Covid-19 Pandemic, sales were volatile from month to month, but an uptrend began in May 2020 and this trend continued throughout the rest of 2020. We can see a strong dividend triangle taking shape. The stock price has moved sideways over the second half of 2021, so now might be the right time to take a position.

VALUATION

Dividend Growth Rate Years 1-10: 5.00% **Terminal Dividend Growth Rate**: 6.00%

	Discount Rate (Horizontal)		
Margin of Safety	**8.00%**	**9.00%**	**10.00%**
20% Premium	$30.31	$20.28	$15.26
10% Premium	$27.79	$18.59	$13.99
Intrinsic Value	$25.26	**$16.90**	$12.72
10% Discount	$22.74	$15.21	$11.44
20% Discount	$20.21	$13.52	$10.17



Potential Risks

The most important risk would likely be that of a recession occurring. The last time that RCH saw a decrease in sales was during the 2008-2009 financial crisis. There have been many concerns about higher interest rates, and housing markets slowing down. The stock price exploded over the past 3 years and that lead to a price plateau for the second part of 2021. We mentioned in our last update that if you buy Richelieu today, you must remain patient and hold it over the long haul. Now that the stock's price is lower than $40, you might want to consider it again. RCH is expected to acquire more businesses going forward, which raises investors' expectations and the risk of overpaying. M&A action is exciting, but always comes with integration risks and a debt burden.

Dividend Growth Perspective

As mentioned in the investment thesis, do not pick RCH for its dividend growth potential. While the company is exhibiting constant dividend increases and buying back shares, we are still looking at a company that has a yield of approximately 1%. For this reason, the DDM calculations don't yield an attractive value at the current price. RCH keeps a "buy" rating as management will continue to grow through acquisitions while raising its payout at a mid-single to high single-digit rate. The company surprised investors with a generous dividend increase from $0.07/share to $0.13/share in 2022; congratulations!