



## Professional's Pick – Reliance Worldwide

by ST Wong

Reliance (ASX: RWC) provides plumbing supplies and water flow products to Australia, New Zealand, Canada and the US. Most of Reliance's products are used in what's known as 'behind-the-wall' plumbing – fittings that are used by tradesmen to connect plumbing and hot water systems. Companies such as Rheem and Reece are customers whilst retailers such as Tradelink and Home Depot in the US stock Reliance's products.

Almost 60% of sales are derived from the top 10 customers, with Home Depot being the critical relationship.

### How long have you held the stock?

We have owned Reliance since its IPO in May this year.

### What do you like about it?

60% of company revenue is earned in the US. Underpinning demand for Reliance's products is the more defensive and less cyclical residential repair and remodel segment in the US. In broad terms, the repair and remodelling market grows in line with GDP growth. However, there are significant opportunities for Reliance to increase its share of the 'behind-the-wall' plumbing market category, led by its push-to-connect suite of products. SharkBite is an example of Reliance's product innovation—it offers quicker and more adaptable solutions to fitting pipes compared to existing products—these products should lead to growth at approximately 2-3x the rate of GDP growth.

### How is it better than its competitors?

We believe Reliance operates in a very competitive sector with a large number of competitors across a

wide price point. However, Reliance has built a very strong brand over a long period of time. The brand speaks of innovation, reliability and quality.

### What do you like about its management?

The existing management team has led the company over a long period of time. The outcomes have been strong organic growth, underpinned by product development and commitment to both manufacturing and marketing resources for long term growth. The average service of key executives is approximately 17 years.

### What is your target price?

The stock is trading at an FY17 PER of 27.5x and yielding 1.8%. Current target price is \$3.62.

### At what point would you sell it?

As the stock trades close to our target price. We look to the company's first profit announcement to re-assess our expectations.

### How much has it added (subtracted) to your overall portfolio over the last 12 months?

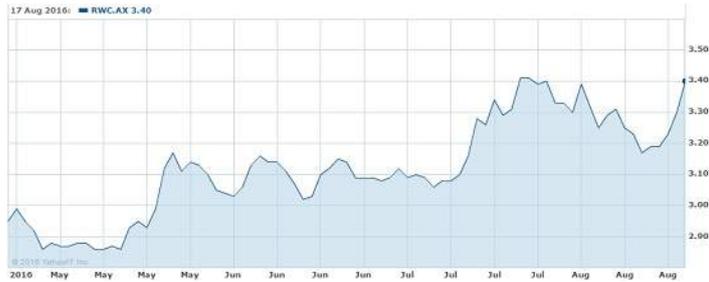
Reliance was listed in May this year at \$2.50 per share. The stock is currently trading at \$3.30. The contribution to performance has been significant since listing.

### Where do you see the value?

The potential for the Reliance business is further expansion into adjacent types of push-to-connect fittings and accessories. Reliance will introduce a new range of push-to-connects products designed for the new US housing market in FY17. If successful, the

new housing market could become a larger part of its US profits eventually.

Reliance is also targeting European growth and is assessing export growth opportunities into Asia and Latin America from its operations in Australia and the US, respectively.



Source: Yahoo

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