Hammond Manufacturing (HMM.A)

Thesis and analysis — October 12, 2026

The thesis

TRIM

Hammond is a high-quality, family-run niche maker of electrical and electronic enclosures earning about 22% on tangible capital and reinvesting in the datacom build-out, but on a filing-grounded two-stage appraisal at an 11% business rate its probability-weighted value is about C$21.7 a share (about C$18.9 excluding the bull case) against a C$27.39 price — no margin of safety: trim the oversized about 37% position toward a 20% core, re-add below about C$16.

The score

4.4 / 10 — hold signal



Lifting it: Return on capital (ROIC), Growth outlook (segments, research)

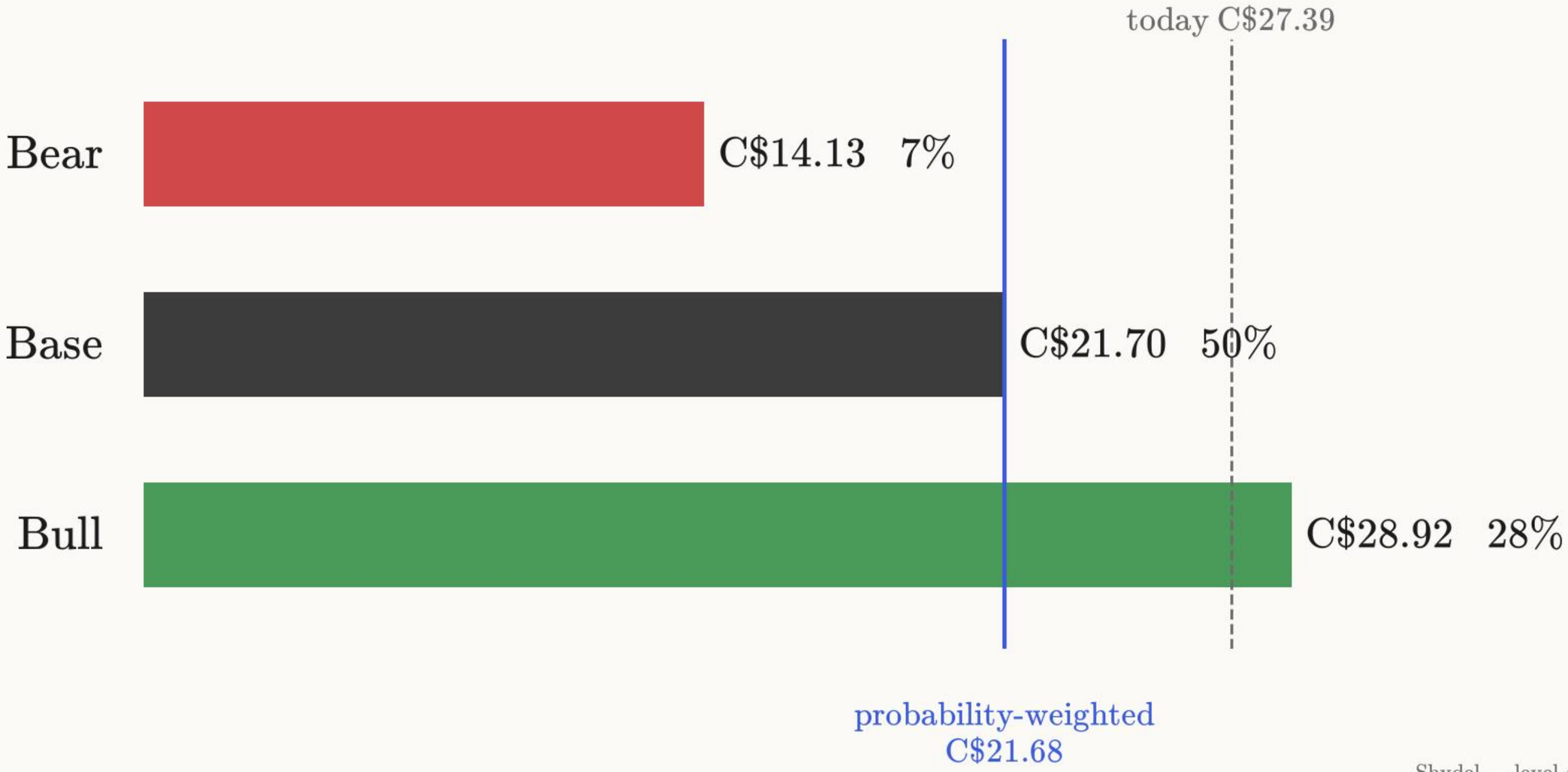
Holding it down: Price, Free cash flow / EBIT

The key numbers

EV / EBIT, normalized	11.6×
P / E, normalized	15.3×
ROIC, normalized	22%
Operating margin, average	9.9%
Marginal return on capital	25%

normalized FY2022-FY2025

What one share is worth



Filings and accounting quality

Clean IFRS filings; FY2022-FY2025 figures tie to the SEDAR+ annual reports; no accounting red flags.

- Unqualified auditor's opinion, "present fairly … in accordance with IFRS"; sole key audit matter is the accuracy of inventory cost.
- No unusual/exceptional items in any year — no restructuring, impairments or exceptional charges; the only items below operating income are recurring FX, equity-investee and investment-property amounts, all immaterial.
- FY2022-FY2025 revenue, operating income, interest, tax, net income, equity, cash, operating cash flow and capex all confirmed to the filings; the only corrections were long-term debt (to the filing figures) and a consistent bundling of right-of-use assets into net PP&E.

Balance sheet

A near-net-cash balance sheet funding a modest, high-returning capital base.

- FY2025: total assets C$235.1M, equity C$131.6M (grown 17%/yr FY2022-FY2025), total liabilities C$103.5M.
- Tangible capital C$137.3M (net working capital C$43.6M + net fixed assets incl. right-of-use); goodwill/intangibles negligible (about C$0.4M) — growth is built, not bought.
- Debt: long-term/mortgage debt about C$35.5M (the C$31.7M 'current portion' is a 25-year 6.25% mortgage shown current under demand-loan classification) plus about C$25M of IFRS16 lease liabilities; cash C$33.1M, so net debt ex-leases is small (about C$2M) and the firm is roughly net cash before leases.

Cash flow statement

Cash generation is solid once growth capex and the IFRS16 lease treatment are separated (the change that mattered most this re-run).

- FY2025 operating cash flow C$25.5M, capex C$5.8M; the IFRS16 lease principal (C$3,244k) sits in financing and is now charged into free cash flow, giving reported FCF C$16.4M > reported net income C$14.4M. Interest paid/received and lease interest are already inside operating cash flow, so no further FCF adjustment is needed.
- Normalized FCF/EBIT looks thin at about 39% (P/FCF about 26×) but is depressed by the FY2022-FY2023 facility expansion (capex C$20.2M and C$13.8M vs about C$7M owned-asset maintenance); maintenance capex is set to owned depreciation (C$7.4M FY2025), with right-of-use depreciation excluded to avoid double-counting the lease now charged as cash rent.

Income statement

A high-return business whose margin is cyclical and tariff-sensitive; normalized earnings well above the depressed latest year.

- Revenue grew +7.6% a year FY2022-FY2025 to C$281.4M (FY2025 +14.9%); operating income C$22.3M in FY2025 (7.9% margin) vs C$27.6M (11.3%) in FY2024 — the drop is US-tariff cost, not lost pricing.
- Normalized (4-year recency-weighted) operating margin 9.9%, normalized EBIT about C$27.8M, net income about C$18.4M, EPS about C$1.62; tax at the 25% normal rate.
- No unusual/exceptional items in any year (confirmed from the income statements and notes); below-operating items are only recurring FX, equity-investee and investment-property amounts.

Debt tables

Modest, well-covered leverage; the structure supports excluding working-capital financing from EV.

- Funded long-term/mortgage debt about C$35.5M (the C$31.7M shown as 'current portion' is the 25-year, 6.25% mortgage, current only under demand-loan classification) plus about C$25M of IFRS16 lease liabilities; bank indebtedness is on demand at CORRA, secured by inventories and receivables — working-capital financing, correctly kept out of EV.
- Net debt ex-leases about C$2M against C$131.6M equity; interest coverage about 6.9×.
- Some term loans are floating-rate, so rates feed operating results; no onerous covenants flagged.

Commitments and contingencies

No off-balance-sheet surprises; obligations are small and ordinary.

- Contractual capital-expenditure commitments only C$1.5M, plus C$1.1M of open RITEC purchase commitments to complete in H1 2026.
- Contingencies: only ordinary-course legal proceedings; management does not expect a material adverse effect.
- Share capital confirmed: 8,556,000 Class A subordinate-voting + 2,778,300 Class B common = 11,334,300 shares; a management option plan with no options outstanding — no dilution overhang.

Receivables and provision for credit losses

Receivables quality is clean — no channel-stuffing or customer-weakening signals.

- Days sales outstanding stable at about 47–48 days across FY2022-FY2025; receivables as a share of sales flat at about 13%.
- Receivables grew +6.4% a year FY2022-FY2025, slower than sales +7.6% — the opposite of the channel-stuffing pattern.
- Trade and other receivables C$36.2M at FY2025; no allowance red flags disclosed.

Market and segment analysis

One business (electrical/electronic enclosures and related components), diversified by geography but concentrated in the US; the datacom/reshoring up-cycle drives growth, tariffs the main threat.

- Sold to OEMs and through a global distributor/agent network; facilities in Canada, US, UK, Taiwan, Australia plus a 40% stake in RITEC (Taiwan).
- Geography: US about 63% of sales and growing fastest (US net sales +14.7% local currency FY2025), Canada ~mid-single-digit, UK/Europe/International smaller and flatter — region-diversified revenue but a single reportable business, so the diversification factor scores poorly (largest segment 100%).

Inventory analysis

Inventory is well-managed (the subject of the sole key audit matter, valuation) with no write-down concerns.

- Inventory C$64.2M FY2025; turns improved to 2.91× (125 days) from about 2.3× (158–162 days) in FY2022-FY2024, within the 2–3× target.
- The service model deliberately holds standard product on the shelf, so inventory is a competitive tool; allowance movements are small (FY2025 release C$0.5M, FY2024 charge C$0.3M) — no demand-collapse signal.

Leases and real estate analysis

Leases are genuine operating property costs, which justifies the valuation treatment adopted this re-run.

- Right-of-use assets C$23.7M and lease liabilities C$25.2M at FY2025 (up on new manufacturing space secured for growth); warehouse/factory leases run about 5 years with renewal and are renegotiated to market rents every five years; autos about 3 years.
- Treatment: lease liabilities are kept OUT of enterprise value (operating, not funded debt), and the cash lease payment (about C$3.2M a year, financing line) is charged into both free cash flow and normalized EBIT; right-of-use depreciation is excluded from maintenance capex to avoid double-counting.
- Owned real estate (Guelph/Fergus, Ontario) is carried at cost and not separately marked; no obvious hidden-asset uplift claimed.

Depreciation analysis

Depreciation is ordinary; capex has normalized after the 2022–2023 expansion, and the maintenance figure used is conservative.

- FY2025 total D&A C$11.0M = owned depreciation/amortization C$7.4M (PP&E C$7.36M + intangibles C$0.09M) + right-of-use depreciation C$3.59M.
- Owned capex fell to C$5.8M in FY2025 (from C$12.0M in FY2024 and about C$20M in FY2022) as the facility expansion wound down; maintenance capex is set to owned depreciation C$7.4M — above actual FY2025 capex, so a conservative through-cycle charge.
- No evidence of understated depreciation or stretched useful lives; amortization of intangibles is negligible (about C$0.1M).

Business quality and moat

A genuine but narrow franchise: high, durable returns on a small capital base from a service/availability advantage, not a patent or network.

- ROIC 21.7% tangible / 16.0% invested (normalized); operating margin about 9.9% x sales/capital 2.05×; marginal return 25% pretax at the average margin (19% at the latest), built segment by segment — each new dollar of capital still earns well above the about 11% cost of capital.
- The moat is breadth of SKU range and same-day availability off the shelf plus low-cost scale in a niche — real and durable but narrow; a determined larger competitor or customer in-sourcing could erode it.
- Returns held up through the FY2025 tariff shock (ROIC stayed mid-teens even at a 7.9% margin), evidence of a resilient niche position.

Management and governance

Conservative, long-horizon family stewardship with real governance limits for minority holders.

- Dual-class control: Class B common shares carry four votes each (2,778,300 Class B = about 11.1M votes vs 8,556,000 Class A single-vote = 8.56M), so the Hammond family holds majority voting control (about 56%+ from Class B alone, about 65% with Class A holdings); Class B is unlisted.
- No formal dividend policy (token C$0.06/share, about C$0.68M total, needs RBC consent above net profit); no buybacks; cash retained and earmarked for growth capex.
- Capital allocation has been disciplined and value-accretive (reinvestment at about 25% pretax marginal returns, near-net-cash balance sheet); reporting is candid; no related-party red flags found.

Valuation

On a filing-grounded two-stage adjusted-present-value appraisal the business is worth less than the price — no margin of safety.

- Normalized EV/EBIT 11.56×, P/E 15.34× (vs 14.41× and 19.62× on the tariff-depressed FY2025 as reported); normalized EBIT about C$27.8M, net income about C$18.4M, EPS about C$1.62.
- APV scenarios (11% business discount rate; growth 75% judgement/25% consensus, margin 75% forecast/25% recency-weighted history capped at the cash margin about 10.2%, new capital at about 16.6% after tax): worst C$11.5 (15%), bear C$14.1 (7%), base C$21.7 (50%), bull C$28.9 (28%).
- Probability-weighted value C$21.68; value excluding the bull case C$18.85 — both below the C$27.39 price (the without-bull value is 0.69× the price, the scorecard's price factor).

Risk and margin of safety

No margin of safety at C$27.39, and the downside is deep in the adverse cases — the business cannot carry a 37% position.

- Weighted value C$21.68 (−21% vs price) and value without the bull case C$18.85 (−31%); only the bull case (C$28.92, 28% odds) exceeds the price, so there is about 72% chance the shares are worth less than paid.
- Downside in the adverse cases: bear C$14.1 (−48%), worst C$11.5 (−58%) — the near-net-cash balance sheet and book-value floor cushion but do not prevent a large markdown if tariffs bite.
- Normalized net earnings yield 6.5% (EBIT/EV yield 8.7%) barely clears the Canada 10-year of 3.93% once cyclicality and single-name microcap risk are priced.

Decision, sizing and portfolio fit

Trim the oversized position; quality argues for keeping a core, price and concentration against holding it all.

- HMM.A is 37.41% of the portfolio (C$465,206, the #1 of 9 positions); trimming to about 20% target core frees about C$216k (about 17% of book), leaving a about C$249k core.
- The score (about 4.4/10) is a hold signal on the numbers, but with no margin of safety (weighted C$21.68 and without-bull C$18.85 vs C$27.39) and 37% single-name concentration in a thinly-traded microcap, the sizing decision overrides: trim.
- The family controls the vote and pays a token dividend with no buybacks, so there is no internal catalyst to close the price-value gap — the return would have to come from the datacom cycle exceeding the base case.

Monitoring and selling

What to watch and the triggers to act on after trimming to a core.

- Margin/tariff path is the key swing: H1 2026 was a record — net sales C$160.2M (+15.7%), operating income C$18.3M (11.4% margin), EPS C$1.12 vs C$0.76 — helped by a temporary reduction in US tariff costs that management calls temporary. Watch the quarterly margin vs the 7.9% FY2025 trough.
- Growth/capex: strong US/North American datacom momentum, but an 85,000 sq ft facility expansion (announced March 2026) plus paint/metal-fab capacity means more growth capex — watch it keeps converting to high-marginal-return sales; inventory turns (now 2.91×) as an early demand signal.
- Sell triggers: sustained operating margin below about 7% with no tariff recovery path; a family/control action diverting value from minorities; inventory write-downs signalling demand collapse; marginal return on new capacity collapsing toward its cost of capital.

The decision

TRIM

The decision: trim. Buy below C$16.00. Trim above C$28.00. Target weight 20.0 percent of the portfolio.

The decision (continued)

TRIM

What would change our mind: A durable 11%+ operating margin or firm evidence the datacom-driven growth is structural would push the weighted value toward the price and argue for holding the full position; conversely, the new-capacity marginal return falling toward its cost of capital would cut the base value and deepen the trim.