



Is Now the Prime Time to Buy Gildan Activewear Inc.?

Description

Gildan Activewear Inc. ([TSX: GIL](#))([NYSE: GIL](#)), an international manufacturer and distributor of apparel products, has watched its stock rise more than 8% in 2014, but it has fallen over 7% since July 25 and weak earnings have played a primary role in this decline. Let's take a quick look at the earnings report that started it all and then break down the key fundamentals of where Gildan's stock stands today to determine if it now represents a long-term buying opportunity or if we should steer clear of it for the time being.

Lackluster quarterly results

The weakness in Gildan's shares began on July 31 when the company released third-quarter earnings results that fell short of analysts' expectations. Here's a breakdown of the report.

Metric	Reported	Expected	Year Ago
Earnings per share	\$0.95	\$0.96	\$0.95
Revenue	\$693.80 million	\$693.84 million	\$614.30 million

Source: *Estimize*

Gildan's earnings per share were unchanged and revenue increased 12.9% year-over-year, driven by 16% growth in its Branded Apparel segment to \$210.4 million. Gildan's largest segment, Printwear, saw sales rise 11.6% to \$483.4 million, as the company saw higher sales volume even with its recent price increases.

These results were slightly affected by manufacturing inefficiencies and capacity constraints, but Gildan announced that it will combat this problem by opening a new textile manufacturing plant in Honduras in the near future. The company had already announced plans to open a new plant in Costa Rica in 2017, so it is clear that the demand for its products is on the rise.

Although revenues rose significantly, gross profit increased just 0.5% to \$194.2 million and operating income decreased 0.1% to \$121.8 million; in relation, the gross margin contracted 350 basis points to

28% and the operating margin contracted 220 basis points to 17.6%. These weak results can be attributed to higher costs of cotton and other key materials, manufacturing inefficiencies, and repackaging costs, but it appears that the company is working hard to make sure these issues do not carry over into fiscal 2015.

On a positive note, the company did announce that it will be maintaining its quarterly dividend of \$0.108, which was paid out on September 8 to shareholders of record on August 14; this gives Gildan a yield of about 0.8% at current levels, which is not large by any means, but it is still respectable.

As a result of the sub-par earnings performance, Gildan announced an updated outlook on the full-year of fiscal 2014 and stated that it continues to anticipate revenues in excess of \$2.4 billion, but that it now expects earnings per share in the range of \$3.00-\$3.03 versus previous expectations of \$3.00-\$3.10. Although this is not a major reduction, it is still not something investors like to see.

Overall, it was a very disappointing quarter for Gildan and its stock responded by falling 3.36% on the day of the release; it has continued lower by more than 3.5% in the weeks since.

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So, are Gildan's shares undervalued?

After the major haircut Gildan has taken since reporting earnings, its stock sits more than 8.4% below its 52-week high and trades at 21.2 times trailing-12-months earnings; this is a fair valuation given the

fact that its five-year average price-to-earnings multiple is 20.9. However, if you dig a little further you will find that Gildan trades at just 17.1 times 2015's estimated earnings per share of \$3.61 and only 14.6 times 2016's estimated earnings per share of \$4.22.

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I believe Gildan could continue to command a fair multiple of 21 going forward, due to its growing market share in multiple apparel categories and the moves it is making to become a more efficient global operator, which would place shares upwards of \$75 by the end of fiscal 2015 and over \$88 by the end of fiscal 2016. These calculations represent significant returns from current levels.

With this in mind, I strongly believe Gildan's shares are undervalued today and would recommend that Foolish investors take a closer look and consider initiating long-term positions right now.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:GIL (Gildan Activewear Inc.)
2. TSX:GIL (Gildan Activewear Inc.)

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