Is Now the Time to Buy Gildan Activewear Inc.?

Description

Gildan Activewear Inc. (TSX:GIL)(NYSE:GIL), one of world's largest manufacturers and distributors of apparel products, released its first-quarter earnings after the market closed on February 4, and its stock has reacted by making a slight move to the upside. Let's break down the quarterly results and the company's outlook on the rest of the year to determine whether we should consider initiating long-term positions today.

Breaking down the fourth-quarter results

Gildan reported a net loss of $37.6 million, or $0.31 per share, compared to a net gain of $43.3 million, or $0.35 per share, and its revenue decreased 13.5% to $390.6 million compared to the fourth quarter of fiscal 2013. Although these results came in line with the company's outlook on the quarter, they came in well below analysts' expectations on both the top and bottom line.

In Gildan's Printwear segment, revenue declined 38.8% to $160.3 million as it faced lower net selling prices and increased inventory destocking by distributors in the United States, which more than offset a 15% increase in international sales. The company's branded apparel segment performed much stronger, with revenues increasing 21.5% to $230.3 million. This growth was primarily due to its acquisition of Doris, organic growth in its Gildan branded programs, and sales of branded underwear increasing 90% year-over-year.

Here's a breakdown of five other important statistics and updated ratios from the report compared to the year-ago period:

1. Gross profit decreased 64.1% to $42.8 million.
2. Gross margin contracted 1,540 basis points to 11%.
3. Reported an operating loss of $40.3 million compared to a gain of $44.4 million a year ago.
4. Adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) came in at a loss of $15.2 million compared to a gain of $64.7 million a year ago.
5. Inventories increased 13.9% from the third quarter to $887.4 million.

Gildan also reiterated its full-year outlook on fiscal 2015, which calls for the following performance:

- Earnings per share in the range of $3.00-$3.15, an increase of 2%-7.1% from the $2.94 earned in fiscal 2014.
- Revenue of approximately $2.65 billion, an increase of 12.3% from the $2.36 billion reported in fiscal 2014.
- Adjusted EBITDA in the range of $525 million-$545 million, an increase of 12.1%-16.4% from the $468.3 million reported in fiscal 2014.
- Printwear sales growth of approximately 5% from fiscal 2014.
- Branded apparel sales growth of approximately 30% from fiscal 2014.

Lastly, Gildan announced that its Board of Directors approved a two-for-one stock split, and the new shares will be distributed on March 27 to shareholders of record at the close of business on March 20.

Should you buy shares of Gildan on the weakness?

Gildan Activewear is one of the world's largest manufacturers and distributors of apparel, but weak sales and increased expenses led it to post fairly weak fourth-quarter results. However, the market has shrugged off the weak results and sent its stock slightly higher.

Even though the fourth quarter was far from impressive, I think Gildan's stock represents an intriguing long-term investment opportunity because it trades at low forward valuations, including just 23.9 times fiscal 2015's estimated earnings per share of $3.07 and only 19.7 times fiscal 2016's estimated earnings per share of $3.72. In addition, the company pays an annual dividend of $0.52 per share, which gives its stock a solid 0.8% yield at current levels.

With all of this information in mind, I think investors should take a closer look at Gildan Activewear today and consider initiating long-term positions on any weakness in the trading sessions ahead.

CATEGORY

1. Investing

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

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