



Is Gildan Activewear Inc. a Good Investment Today?

Description

Even for someone like me who don't follow the trends, I still recognize some clothing brands offered by **Gildan Activewear Inc.** ([TSX:GIL](#))([NYSE:GIL](#)). Is Gildan a good investment for the everyday investor today? First, let's get a sense of what kind of company Gildan Activewear is.

About Gildan Activewear

Gildan Activewear is a Montreal-based manufacturer and supplier of basic apparel, such as T-shirts, fleece, socks, and underwear. Its umbrella of brands include Gildan, Anvil, Gold Toe, Silks, Secret, Kushyfoot, and Therapy Plus. On top of that, it also distributes licensed brands such as New Balance, Under Armour, and Mossy Oak.

The company distributes its products in printwear markets in the U.S., Canada, Europe, Asia Pacific, and Latin America. Being vertically integrated, Gildan owns and operates large-scale manufacturing facilities primarily situated in Central America and the Caribbean Basin to replenish customer needs in the printwear and retail markets. Additionally, Gildan is committed to industry-leading labour and environmental practices in its facilities.

60% of its revenue comes from its wholesale distribution, while 40% is from retail distribution.

Gildan's recently completed a two-for-one stock split in Q1 2015, acquired Comfort Colors, a leading brand in fashion basics of the printwear market for US \$100 million, and signed an agreement with country singer, Blake Shelton to promote the Gildan brand.

Management

Glenn Chamandy is a co-founder of the company and has been Gildan's president and CEO since 2004. Before being appointed to these roles, Mr. Chamandy served as a co-CEO and COO of Gildan. He has over 30 years of experience in various textile and apparel businesses.

William Anderson is chairman of the board of directors at Gildan. He also currently serves on the board of directors of **TransAlta Corporation**, a power generation and energy marketing firm, and **Sun Life Financial Inc.**

, an international financial services organization.

In the past, Mr. Anderson served as CFO at **BCE Inc.**, Canada's biggest telecommunications company, and he served as the chairman and CEO of Bell Canada International Inc., a subsidiary of BCE Inc.

Dividend history and growth

Gildan started paying a quarterly dividend in Q3 2012. It started at US\$0.075 per share, and today it has grown to US\$0.13 per share. Using a three-year period, that's an average growth of 20% per year.

Gildan's payout ratio of 19% seems low in general terms, but for the apparel industry, that's actually standard. For example, its comparable peer, **Hanesbrands Inc.** has a payout ratio of 21%. This means that Gildan's dividend can continue growing at a double-digit rate only if its earnings do the same.

Recent earnings history

In its February outlook the company maintained its guidance for adjusted diluted earnings per share (EPS) to reach US\$3-3.15 by the end of 2015. Here's a table for comparison purposes.

	2010	2011	2012	2013	2014	2015*
Adjusted Diluted EPS (\$US)	1.67	2.02	1.29	2.69	2.94	3-3.15
Growth		21%	-36%	109%	9%	2-7%

* based on company guidance

When the 2012 anomaly is taken out, the EPS increased 15.4% per year from 2011 to 2013.

What to expect from Gildan Activewear

Currently with a price-to-earnings ratio of over 25, and with an earnings growth estimate in the single-digit, I believe Gildan's price is running ahead of its earnings.

Additionally, the printwear business is highly competitive, and there's no switching cost for customers to buy other brands. So, Gildan doesn't have much pricing power. That said, Gildan's international printwear sales has growth potential, as it currently makes up only 10% of sales.

Gildan's low yield of less than 1% may be unappealing to income investors, even though there's high-growth potential in the double digits should Gildan's earnings pick up its pace again. Other investors looking to buy a position in Gildan should wait for a more attractive entry point.

CATEGORY

1. Investing

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1. NYSE:GIL (Gildan Activewear Inc.)
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