



Should You Buy, Sell, or Hold Gildan Activewear Inc. Today?

Description

Gildan Activewear Inc. ([TSX:GIL](#))([NYSE:GIL](#)), one of world's largest manufacturers and distributors of apparel, announced better-than-expected first-quarter earnings before the market opened on May 14, and its stock has responded by rising over 4%. Let's take a closer look at the results to determine if we should consider buying in to this rally, or if we should wait for it to subside.

Breaking down the better-than-expected results

Here's a summary of Gildan's first-quarter earnings results compared with what analysts had anticipated and its results in the same period a year ago. All figures are in U.S. dollars.

Metric	Reported	Expected	Year-Ago
Adjusted Earnings Per Share	\$0.24	\$0.23	\$0.32
Revenue	\$636.19 million	\$630.78 million	\$548.80 million

Source: *Financial Times*

Gildan's adjusted earnings per share decreased 25% and its revenue increased 15.9% compared with the first quarter of fiscal 2014. The company's steep decline in earnings per share can be attributed to its adjusted net income decreasing 27.4% to \$57.5 million, driven by lower gross margins in both of its operating segments.

Its double-digit percentage increase in revenue can be attributed to very strong volume growth in both of its operating segments, which led to sales increasing 13.9% to \$431.3 million in its Printwear segment and 20.3% to \$204.9 million in its Branded Apparel segment.

Here's a quick breakdown of six other notable statistics from the report compared with the year-ago period:

1. Gross profit decreased 8.7% to \$139.93 million
2. Gross margin contracted 590 basis points to 22%

3. Adjusted earnings before interest, taxes, depreciation, and amortization decreased 15.6% to \$92.2 million
4. Operating profit decreased 26.9% to \$61.37 million
5. Operating margin contracted 570 basis points to 9.6%
6. Ended the quarter with \$60.28 million in cash and cash equivalents, a decrease of 29.2% from the beginning of the quarter

Gildan also announced that it will be maintaining its quarterly dividend of \$0.065 per share, and the next payment will come on June 22 to shareholders of record at the close of business on May 27.

Does Gildan belong in your portfolio?

It was a very strong quarter for Gildan, so I think the post-earnings pop in its stock is warranted. I also think the stock could continue higher from here because it still trades at favourable forward valuations and because the company has shown a deep dedication to maximizing shareholder value through the payment of dividends.

First, Gildan's stock trades at just 25.5 times its median earnings per share outlook of \$1.53 for fiscal 2015 and only 20.4 times analysts' estimated earnings per share of \$1.91 for fiscal 2016, both of which are very inexpensive compared with its long-term growth potential.

Second, Gildan pays an annual dividend of \$0.26 per share, giving its stock a 0.65% yield at current levels. A 0.65% yield is not high by any means, but it is very important to note that the company has increased its dividend for three consecutive years, and I think this streak could continue on for the next several years.

With all of the information provided above in mind, I think Gildan Activewear represents a great long-term investment opportunity today. Foolish investors should take a closer look and consider beginning to scale in to positions.

CATEGORY

1. Investing
2. Stocks for Beginners

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