



Is Gildan Activewear Inc. a Buy After a 7% Drop?

Description

After reporting on its second quarter on July 31, **Gildan Activewear Inc.'s** ([TSX:GIL](#))([NYSE:GIL](#)) price declined over 7%, closing at a price of \$42. What caused the dip and is Gildan a buy today? First, let's take a look at its business.

The business

Gildan Activewear is a manufacturer and supplier of basic apparel that's based in Montreal. Its products include T-shirts, fleece, socks, and underwear. Its umbrella of brands include Gildan, Anvil, Gold Toe, Comfort Colors, 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 United States, Canada, Europe, Asia Pacific, and Latin America. Because it is 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.

Second-quarter results and guidance

Gildan reported the following for the second quarter:

- Diluted earnings-per-share (EPS) of U\$0.42 compared with U\$0.47 for the same period in 2014
- Net sales of U\$714.2 million, up 2.9% from U\$693.8 million from the same period in 2014, with 12.3% growth in sales for branded apparel, partially offset by a 1.2% decline in printwear sales largely due to the selling price reductions implemented in December 2014. In all, net sales were below Gildan's guidance of U\$750 million
- Generated free cash flow of U\$18.5 million after financing capital expenditures of U\$67.3 million and seasonal working capital changes

Gildan's updated full year guidance as follows:

- Gildan projects full year EPS guidance to be at the bottom of previous guidance range of U\$1.50-

1.55

- In printwear, sales growth is projected to be 10% instead of 12% due to lower sales in Europe
- In branded apparel, sales growth is projected to be 15% instead of 20% in reflection of lower sales in the second quarter and assumption of lower retailer replenishment needed for the third quarter

Sales were below expectations and EPS is projected to be at the lower end of the range for the year. These factors caused the 7% drop in Gildan's shares on Friday, but I do not think the 7% drop was enough.

Growth factors

Even though Gildan gave lower guidance, there are still factors that could contribute to Gildan's growth, like the selling of its products at more retail locations. For example, in the second quarter Gildan began shipments of its branded products to new food, drug, and mass retailers. Further, by the end of the 2015 holiday season Gildan branded underwear is expected to be in roughly 18,000 retail stores, almost double the number of stores from the end of the June quarter due to penetration of new retailers.

Another growth factor is the operating margin improvement because of continuing lower manufacturing and cotton costs.

Should you buy today?

Gildan Activewear shares dropped by 7% because of lowered sales and earnings expectations. Gildan pays a dividend with a yield of less than 1%, so investors would only buy Gildan for its growth potential. At a price-to-earnings ratio of about 25, Gildan shares are expensive for its anticipated double-digit growth, which could diminish as it did in the second quarter. As a result, I don't think Gildan shares are a buy today.

CATEGORY

1. Dividend Stocks
2. Investing

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