



Gildan Activewear Inc. Rallies on Strong Q3 Results: Could it Continue Higher?

Description

Gildan Activewear Inc. ([TSX:GIL](#))([NYSE:GIL](#)), one of world's largest manufacturers and distributors of apparel products, announced third-quarter earnings results before the market opened on November 12, and its stock responded by rising over 4.5% in the day's trading session.

Its stock still sits about 18% below its 52-week high of \$35.15 reached back in July, so let's take a closer look at the results and the fundamentals of the stock to determine if we should consider buying in to this rally or if we should wait for a better entry point in the weeks ahead.

The results that ignited the rally

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

Metric	Q3 2015 Actual	Q3 2015 Expected	Q3 2014 Actual
Adjusted Earnings Per Share	\$0.52	\$0.52	\$0.50
Net sales	\$674.5 million	\$702.79 million	\$666.0 million

Source: *Financial Times*

Gildan's adjusted diluted earnings per share increased 4% and its net sales increased 1.3% compared with the third quarter of fiscal 2014. The company's strong earnings-per-share growth can be attributed to its adjusted net income increasing 2.9% to \$126.4 million, helped by its total operating expenses decreasing 0.3% to \$545.2 million.

It is also worth noting that its earnings came in line with the guidance it provided in its second-quarter report, which called for earnings per share in the range of \$0.51-0.53.

Its slight increase in net sales can be attributed to growth in both of its operating segments, including 1.1% growth to \$440.5 million in its Printwear segment and 1.7% growth to \$234 million in its Branded Apparel segment.

However, its net sales came in below the guidance it provided in its second-quarter report, which called for \$700 million. The company stated that this miss could be attributed to “lower than anticipated Branded Apparel sales ... and weaker than anticipated demand during the back-to-school period.”

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

1. Gross profit increased 10.4% to \$212 million
2. Adjusted earnings before interest, taxes, depreciation, and amortization increased 13.7% to \$163.8 million
3. Operating income increased 8.3% to \$129.3 million
4. Cash flows from operating activities increased 2.7% to \$190.5 million
5. Free cash flow increased 32.6% to \$149.2 million
6. Net indebtedness increased 352% to \$414.9 million

Gildan also made two important announcements.

First, it announced that it will be maintaining its quarterly dividend of \$0.065 per share, and the next payment will come on December 14 to shareholders of record at the close of business on November 27.

Second, it announced a reduction to its full-year outlook for fiscal 2015, and is now calling for earnings per share in the range of \$1.46-1.48 and revenue of close to \$2.55 billion, which is down from its previous outlook of earnings per share of approximately \$1.50 and revenue of close to \$2.6 billion.

Should you buy in to or avoid the rally?

It was a fairly weak quarter overall for Gildan, so I do not think the post-earnings pop of over 4.5% was warranted.

However, I do think the stock represents an attractive investment opportunity for the long term, because it trades at favourable forward valuations, including just 19.6 times the company’s median earnings-per-share outlook of \$1.47 for fiscal 2015 and only 15.3 times analysts’ estimated earnings per share of \$1.89 for fiscal 2016, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 22.1.

I think Gildan’s stock could consistently trade at a fair multiple of at least 20, which would place its shares upwards of \$37 by the conclusion of fiscal 2016, representing upside of more than 28% from today’s levels.

With all of the information provided above in mind, I think Gildan Activewear is one of the top value plays in the apparel industry today. All Foolish investors should strongly consider beginning to scale in to positions over the next couple of weeks.

CATEGORY

1. Investing

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1. NYSE:GIL (Gildan Activewear Inc.)
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