



## Gildan Activewear Inc. Is Poised to Be a Dividend-Growth Monster for Decades to Come

### Description

Dividend-growth investors tend to follow a fairly predictable formula.

They look for companies with a history of raising the dividend. These investors aren't looking for a streak of a year or two. They're more concerned with decade-long streaks. Thus, their portfolios tend to get stuffed with sectors like Canada's banks, telecoms, and utilities.

There's a real problem with building a portfolio that way, and that's a lack of significant growth. At this point, investors really can't expect the traditional dividend-growth sectors to grow much more than the rate of inflation. These companies already dominate Canada's economy.

Perhaps these investors should look at incorporating a little more growth into the portfolio. Sure, you'll give up a little yield in the process, but this should be more than made up for with capital gains.

**Gildan Activewear Inc.** ([TSX:GIL](#))([NYSE:GIL](#)) is poised to be such a company over the next decade or two. Here's the argument for dividend-growth investors to buy it over a more traditional choice.

### The potential for the business

Gildan is a supplier of what management calls "basic family apparel." This includes things like T-shirts, underwear, socks, hosiery, and shapewear. The more interesting part of the business is the licensing deals it has with other brands. It supplies Secret and Silks hosiery products. It has the U.S. sock licence for **Under Armour**. It also has licensing deals for New Balance and Mossy Oak apparel.

The real potential is in growing the licensing business. There are dozens of different companies that could potentially choose to get out of the manufacturing business and entrust Gildan with the whole operation. The company can sit back and collect a royalty on every product sold, while Gildan's vertically integrated business model takes care of everything.

Gildan has huge operations and employs more than 43,000 employees. Over the last year it's done more than US\$2.4 billion in revenue, meaning it has the scale to be a true low-cost operator. And since

its manufacturing facilities are primarily in Central America and the Caribbean, this allows Gildan to get product to customers quicker than manufacturers in Asia can.

Gildan has delivered decent growth over the past year. Revenue for the company's fiscal 2014 was US\$2.36 billion. It's projected by analysts to hit US\$2.66 billion in 2015, and that's even after the strong U.S. dollar negatively affects results. Remember, many of Gildan's sales come from Canada and are priced in Canadian dollars.

### **The dividend potential**

Currently, Gildan pays a dividend of US\$0.065 per share on a quarterly basis. The company has raised its dividend twice since originating it back in November 2012 and looks poised to raise it again in the first quarter of 2016. The original dividend was US\$0.045 per quarter. That's dividend growth of more than 44% in just under three years.

It's also a mere fraction of what Gildan earns. Over the last 12 months the company earned \$1.36 per share, which includes a very disappointing quarter in which it lost \$0.17 per share. Once that bad quarter comes off the books, analysts estimate annual earnings will be \$1.95 per share for 2015, growing to \$2.47 per share for 2016.

That's a potential payout ratio of just 13.3% of earnings for 2015. In 2016 the company can grow the dividend 23% (from US\$0.065 to US\$0.08 per share quarterly), and the payout ratio will actually dip to under 13%.

Over the long term, the potential for growth is huge. Even if Gildan can't grow its earnings at all after hitting \$2.47 per share, it can increase the dividend by 20% annually for a decade, and it'll still have a payout ratio of under 70% of earnings. Considering the potential in Gildan's business, I'd say the chances of earnings not growing substantially over the next decade are pretty low.

Although Gildan Activewear only yields 0.9% now, it's still a company that should be on every dividend-growth investor's radar. It's that simple.

### **CATEGORY**

1. Dividend Stocks
2. Investing

### **TICKERS GLOBAL**

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

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