



Gildan Activewear Inc.'s Adjusted Q1 EPS Jumps 16.7%: Is Now the Time to Buy?

Description

Gildan Activewear Inc. ([TSX:GIL](#))([NYSE:GIL](#)), one of world's largest manufacturers and distributors of apparel products, released its first-quarter earnings report after the market closed on May 4, and its stock responded by rising over 2% in the trading session that followed. Let's break down the quarterly results, three important announcements made by the company, and the fundamentals of its stock to determine if we should be long-term buyers today or if we should wait for a better entry point in the trading sessions ahead.

Breaking down the earnings 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.

Metric	Q1 2016 Actual	Q1 2016 Expected	Q1 2015 Actual
Adjusted Earnings Per Share	US\$0.28	US\$0.28	US\$0.24
Revenue	US\$593.3 million	US\$617.9 million	US\$636.2 million

Source: *Financial Times*

Gildan's adjusted diluted earnings per share increased 16.7% and its revenue decreased 6.7% compared with the first quarter of fiscal 2015. Its strong earnings-per-share growth can be attributed to its adjusted net income increasing 20% to \$69 million, which the company noted was "mainly due to the 22.6% increase in adjusted operating income, partly offset by higher financial charges."

Its slight decline in revenue can be attributed to its revenues falling in both of its operating segments, including a 9.1% decline to US\$392.1 million in its Printwear segment, driven by lower inventory replenishment by distributors, and a 1.8% decline to US\$201.2 million in its Branded Apparel segment, driven by the negative impact from the exit of certain private label programs and lower Gold Toe sales as a result of the continued weakness in the department store and national chain channels.

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

1. Gross profit increased 11.8% to US\$156.4 million
2. Adjusted earnings before interest, taxes, depreciation, and amortization increased 21.3% to US\$111.8 million
3. Adjusted operating income increased 22.6% to US\$77.1 million
4. Adjusted operating margin improved 310 basis points to 13%
5. Repurchased 5.2 million shares for a total cost of approximately \$140.1 million

Other notable announcements

Gildan also made three important announcements

First, the company announced that it had entered into a definitive agreement to acquire 100% of the equity interest of Alstyle Apparel, LLC and its subsidiaries, which constitute the apparel division of Ennis, Inc., for a total cash purchase price of \$110 million. Gildan noted that this acquisition will immediately expand its penetration in printwear markets in Canada, the United States, and Mexico, and that it is expected to close by the end of June.

Second, Gildan announced that it would be maintaining its quarterly dividend of US\$0.078 per share, and the next payment will come on June 13 to shareholders of record at the close of business on May 19.

Third, it reaffirmed its outlook on fiscal 2016, calling for adjusted diluted earnings per share in the range of US\$1.50-1.60 and revenue in excess of \$2.6 billion, comprised of Printwear revenues in excess of US\$1.6 billion and Branded Apparel revenues in excess of US\$1 billion.

What should you do with Gildan's stock today?

The first quarter was far from impressive for Gildan, so I do not think its stock should have responded by rising as much as it did. With this being said, I do think the stock represents an attractive investment opportunity for the long term for three primary reasons.

First, it's inexpensive. Gildan's stock trades at just 19.9 times its median earnings-per-share outlook of US\$1.55 for fiscal 2016 and only 17 times analysts' estimated earnings per share of US\$1.82 for fiscal 2017, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 23 and the industry average multiple of 23.9. These multiples are also inexpensive given its estimated 12.1% long-term earnings growth rate.

Second, it's actively repurchasing its shares. As mentioned before, Gildan repurchased 5.2 million shares for a total cost of \$140.1 million in the first quarter, and this was all part of its 12.19 million share-repurchase program that began on February 26, 2016 and will expire on February 25, 2017. These repurchases will play a major role in the company's earnings-per-share growth going forward.

Third, it's a dividend-growth play. Gildan pays an annual dividend of US\$0.312 per share, which gives its stock a yield of about 1%. A 1% yield is not high by any means, but it is very important to note that the company has raised its annual dividend payment for three consecutive years, and its 20% hike in

February has it on pace for 2016 to mark the fourth consecutive year with an increase.

Gildan's share repurchases and its streak of annual dividend increases show that it is fully dedicated to maximizing shareholder value.

With all of the information provided above in mind, I think Foolish investors could begin to scale in to long-term positions in Gildan Activewear today.

CATEGORY

1. Investing

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1. NYSE:GIL (Gildan Activewear Inc.)
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