Is Gildan Activewear Inc. a Buy After Dipping 12%?

Description

From a 52-week high of about $42 per share, **Gildan Activewear Inc.** (TSX:GIL)(NYSE:GIL) has fallen about 12% to roughly $37 per share. Is this a buying opportunity?

First, let's take a look at Gildan Activewear's business.

The business

Gildan Activewear is based in Montreal. It manufactures and supplies basic apparel, including products such as T-shirts, fleece, socks, and underwear. Its umbrella of brands includes 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 is a low-cost manufacturer as it's vertically integrated and distributes its products in printwear markets in the United States, Canada, Europe, Asia Pacific, and Latin America.

Gildan Activewear 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.

Growth

Despite the 12% dip, Gildan Activewear has had strong earnings growth, which led to annualized returns of 18.7% (or 167.3%) since 2011. Specifically, the growth company has compounded its earnings-per-share growth at a rate of nearly 15.5% per year (or 95%) during that period.

According to fellow Fool writer, Will Ashworth, there are several factors that could allow Gildan Activewear to continue its growth trajectory: the company's continual penetration into the printwear and retail market, its ability to increase capacity while reducing costs, and acquisitions.

Analysts agree that Gildan Activewear can continue to grow. The consensus is that the company is estimated to grow 14-15% per year in the next three to five years, which should lead to steady appreciation of its share price.

Dividend

Gildan Activewear yields only 1.1%. However, this year marks the fifth consecutive year of its dividend-growth streak. It has been growing its dividend at a compound annual growth rate of 15.9% during this period.

If Gildan's earnings continue to grow at a rate of 14-15% per year, it's likely management will continue growing the dividend at a double-digit rate to maintain its dividend-growth streak as the company's payout ratio remains sustainable at below 21%.

Canadian investors benefit from a stronger U.S. dollar against the Canadian dollar as the company's dividends are denominated in the U.S. dollar.

Valuation

At $37 per share, Gildan Activewear trades at a forward price-to-earnings ratio of about 16.5. This is a fair valuation to pay for an expected annual growth of 14-15%.

Conclusion

Gildan Activewear trades at an inexpensive forward multiple of 16.5. Since its earnings-per-share growth per year is expected to be about 14% for the next few years, an investment today could lead to double-digit returns. However, the company needs to continue penetrating the printwear and retail market.

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