

Gildan Activewear Inc. Gets Active in the M&A Space

Description

Gildan Activewear Inc. ([TSX:GIL](#))([NYSE:GIL](#)), a leading manufacturer and marketer of household “basics,” has recently added to its portfolio of brands by agreeing to purchase American Apparel out of Chapter 11 bankruptcy. The company has agreed to purchase only American Apparel’s intellectual property rights for US\$66 million, opting not to purchase the rights to American Apparel’s 200 retail stores. This is American Apparel’s second bankruptcy in less than two years, and it appears this may be the end of the road for a once-iconic brand.

I will discuss what this purchase means for long-term investors wanting exposure to the manufacturing and textiles sector.

Teen fashion retail struggling, but Gildan has a formula that works

Retailers targeting the teen segment continue to struggle; American Apparel is a retailer focusing on the teen segment that has bitten the dust. The uniqueness of the product line combined with the company’s often controversial but successful marketing scheme has made American Apparel an attractive target for Gildan.

Gildan has focused in recent years on bolstering its printwear channel, announcing strong growth of approximately 12% in this category at year end 2015 compared to a year earlier. This growth is anticipated to be complemented nicely by the company’s purchase of American Apparel, whose strength came primarily from retailing printwear and basics.

Gildan has improved operating margins in recent years by moving production around the world, and by effectively integrating existing brands into its portfolio. Last year, the company acquired and successfully integrated Anvil and Comfort Colors into its portfolio.

Gildan’s business model relies on the company’s ability to exist in the “boring” product segments (focusing primarily on products such as underwear and socks) and operate more efficiently than its competitors. Many analysts have viewed this potential acquisition as being very positive for the stock price. The stock moved 5% higher on the news Monday and closed marginally higher Tuesday with the market reflecting analyst sentiment.

The deal is not yet done, as this is still pending court approval, and is still technically considered to be only a “bid,” although the market seems to believe there is little chance the deal will fall through.

Gildan has a stable and growing dividend with a small yield around 1%, and the board has initiated a normal course issuer bid to repurchase up to 5% of the company’s shares to return additional capital to shareholders. For a boring company with a boring dividend and share-repurchase program, things don’t look too bad for a long-term investor seeking a safe opportunity. After all, those investors who bought this stock five years ago have realized stock appreciation of 163%. That’s not bad at all.

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