1 Undervalued Stock Warren Buffett Would Want for Christmas

Description

Gildan Activewear Inc. (TSX:GIL)(NYSE:GIL) is your typical boring stock. The company manufactures basic clothing like blank t-shirts, sweatshirts, and fleeces. Warren Buffett values simple stocks that many investors overlook because they're just too boring or slow for them.

The general public loves their high-flying tech stocks that are hard to understand, but Buffett prefers his businesses to be easy to understand. In fact, the more boring a stock is, the better it is as a long-term investment for Buffett and his followers. For simple, boring stocks such as Gildan, the future earnings-growth trajectory is more predictable, and there won't be as many nasty surprises as there are with speculative, fast-growing stocks.

Gildan has been in a house of pain for over a year and is now off 19% from its peak in the summer of 2015. Contrarian investors may want to pick up shares of this company now because the valuations are ridiculously cheap, and the fundamentals are as strong as ever after some interesting acquisitions it made this year.

Gildan acquired Peds Legwear for US$55 million and Alstyle Apparel for US$110 million. These companies are expected to generate US$80 million and $183 million, respectively, in annual revenues. Gildan's management team is also top notch, and you can count on them to squeeze every last synergy they can out of these new acquisitions.

Gildan's printwear division accounts for about 62% of its total revenues. It sells its printed activewear under the Comfort Colors and Anvil brands, both of which are very basic lines of coloured shirts which are meant to be heat pressed with a client's customized logo.

Alstyle gives Gildan exposure to the U.S. and Latin America, both of which are expected to be very strong for the next few years. Gildan also has facilities set up in Mexico, so that Latin Americans can buy products without duty fees from shipping across borders.

Going forward, we can expect more acquisitions from Gildan as the company attempts to gain a more dominant position in the basic activewear market. The emerging markets will be a huge area for growth which will propel the stock higher over the next few years.

Gildan has a very healthy balance sheet with tons of cash to use to finance future acquisitions. There's also enough cash to raise the dividend next year by as much as 20%. The company has the ability to do this, but I believe the management team wants to use this cash to invest in growing the business at an international level.

The stock trades at a huge discount to its intrinsic value right now. The company is growing quite fast for a simple manufacturer of generic activewear and trades at a 2.9 price-to-book multiple, which is cheaper than its five-year historical average multiple of 3.3. The dividend yield is at a modest 1.1%, but the company has grown its dividend every year since it first started paying one in 2011.

This company is a dividend-growth king and will be a very strong pick for the next few years. If you're a value investor, now is the time to pick up shares before they soar in 2017.

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Date
2025/08/26
Date Created
2016/12/23
Author
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