Gildan Activewear Inc. Is Too Cheap to Ignore

Description

Gildan Activewear Inc. (TSX:GIL)(NYSE:GIL) has been struggling to break through the $40 level for over a year. The company is in the predictable business of manufacturing generic clothing like t-shirts and sweatshirts. Gildan has several growth initiatives that could propel long-term earnings and is trading at a very reasonable valuation. Should investors think about picking up shares?

Gildan finally got approval to acquire American Apparel, which will be a deal worth $88 million. There's no question that American Apparel has been plagued with financial issues. Gildan has the management and expertise to get the most out of American Apparel's assets, which I believe are a great addition to an already strong portfolio.

Gildan has a moat in its printwear segment, which continues to get stronger through its acquisition of smaller printwear companies like Alstyle Apparel.

How could something as generic as a custom printing on a blank t-shirt have a moat?

Gildan has the manufacturing capability and the operational efficiency to offer customers a very cheap price for printwear that is of decent quality. Sure, a competitor could easily set up shop to compete directly with Gildan, but it wouldn't make sense to do so. It would require billions of dollars worth of spending to be able to produce the same quality of printwear at such a low price.

Last year, Gildan acquired Alstyle Apparel for $110 million, which further strengthens the company's printwear position. Alstyle Apparel is a manufacturer that sells about $180 million worth of printwear per year and will benefit from the synergies that Gildan's experienced management team will unlock.

The company is very boring. But this is a good thing since boring stocks are usually the simplest businesses with predictable future earnings. Gildan has steadily grown its earnings over the last decade, and with the growth in earnings came generous dividend hikes. I believe it's very likely that Gildan will continue this pattern for the next decade through acquisitions and reinvestment to increase gross margins.

The stock has been going sideways for over a year. Because of this, shares are now trading at a very attractive valuation. The stock currently trades at a 25.3 price-to-earnings multiple, which is in line with the company's historical average multiple. But the price-to-book, price-to-sales, and price-to-cash flow multiples are all lower than the company's five-year historical average multiples. The dividend yield is also 0.3% higher than the company's historical average at 1.2%.

Buying shares of Gildan right now would not be a bad idea considering the company will be able to reignite American Apparel, which I believe owns some terrific assets.

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