



Is Gildan Activewear Inc. a Good Buy Today?

Description

From a 52-week high of \$41 per share, **Gildan Activewear Inc.** ([TSX:GIL](#))([NYSE:GIL](#)) has fallen 23% to \$31.30 per share. Is the company a good buy today? How does the American Apparel acquisition fit into its business?

The American Apparel acquisition

In January, Gildan Activewear announced that it won a court-supervised auction to acquire assets from American Apparel, which filed for the Chapter 11 bankruptcy protection.

Specifically, for US\$88 million, Gildan Activewear is acquiring the global intellectual property rights to the American Apparel brand and some of its manufacturing equipment. The acquisition is expected to complete this month.

American Apparel will be a good fit in Gildan Activewear's printwear business: "We see strong potential to grow American Apparel® sales by leveraging our extensive printwear distribution networks in North America and internationally to drive further market share penetration in the fashion basics segment of these markets," said Glenn Chamandy, the president and CEO of Gildan Activewear, in a January press release.

Gildan Activewear will separately buy inventory from American Apparel to ensure a seamless supply of goods to the printwear channel while the company integrates the brand into its business.

T-shirt that prints "believe"

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, Alstyle, Silks, Secret, Kushyfoot, Secret Silky, Peds, MediPeds, 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, the Caribbean Basin, North America, and Bangladesh to replenish customer needs in the printwear and retail markets.

A growing dividend

Although Gildan Activewear only yields 1.3%, it has been growing its dividend in a healthy manner, as its payout ratio is only about 22%. Since it offers a U.S. dollar-denominated dividend, investors will experience bumpiness in the yield due to foreign exchange fluctuations and benefit from a strong U.S. dollar against the Canadian dollar.

The company has hiked its dividend for six consecutive years. Over the last five years, it has increased its dividend at a compound annual growth rate of 15.8%.

The valuation

Gildan Activewear trades at a price-to-earnings ratio of about 15.7, while the analyst consensus expects it to grow its earnings per share by 13.4-15% per year for the next three to five years.

So, the shares trade at a reasonable to discounted valuation and could trade at \$35-38 within a year. If so, it'd imply an upside of 11-21%.

Investor takeaway

Gildan Activewear is decently valued at about \$31 per share. Within a year, it could trade 11-21% higher. Additionally, it is committed to growing its dividend.

Technically, though, the shares are in a downtrend. Cautious investors should look for it to build a base or some upward action with volume support before buying.

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