



## Value Investors Might Want to Consider Buying This Undervalued Gem

### Description

**Gildan Activeware Inc.** ([TSX:GIL](#))([NYSE:GIL](#)) is a Canadian manufacturer of generic clothing, such as undecorated activewear like t-shirts and fleeces. It's definitely not a high-flying name. It's a simple business that is quite boring, and this is how Warren Buffett likes the businesses he owns.

With this type of business, it's a lot easier to predict the future stream of earnings, especially considering the fact that the unbranded generic clothing manufacturing business isn't likely to change much over the next decade and beyond.

The company is down nearly 24% from its July 2015 peak, and I believe the stock is a very attractive buy after its recent Q4 2016 earnings report.

The company saw profits increase to US\$74.3 million in Q4 — up from US\$67.6 million during the same period last year. The management team updated estimates for 2017; it sees earnings per share between \$1.60 and \$1.70 — approximately a 9% increase from last year.

### Why consider the boring business of t-shirts and socks?

Gildan has a top-notch manufacturing division that is very efficient. The company has had a high ROE over the last decade thanks to the management team's initiatives to improve operational efficiencies.

Sure, undecorated activewear is very generic, and there's virtually no moat present as anyone could easily jump into this business. But unlike many of Gildan's smaller competitors, the company is able to drive prices to much lower prices without sacrificing quality. A competitor competing with Gildan would require a significant amount of capital expenditures. So Gildan does actually have the concept of a moat.

Gildan recently won a bankruptcy auction to buy assets from American Apparel, which is a well-known brand that had a questionable management team. Gildan acquired the rights to the brand as well as some of its manufacturing assets. There's no question that the terrific management team at Gildan will do a much better job with American Apparel's assets, and I believe the company is well positioned to grow the American Apparel brand in a way the previous management team never could.

### **Should investors scoop up this name today?**

The stock trades at a 17.7 price-to-earnings multiple with a 1.46% dividend yield, which has been steadily growing over the last five years. The latest earnings results and updated forecast sound very promising, and I believe Gildan is a terrific pick for value investors looking to pick up shares of a simple business with an ample amount of growth potential and that's priced at a discount to its intrinsic value.

### **CATEGORY**

1. Investing

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