



## Why Gildan Activewear Inc. Is Down 1% Today

### Description

**Gildan Activewear Inc.** ([TSX:GIL](#))([NYSE:GIL](#)), one of world's largest manufacturers and distributors of apparel products, released its second-quarter earnings results this morning, and its stock has responded by falling about 1% in early trading. Let's break down the quarterly results, an important announcement regarding its guidance, and the fundamentals of its stock to determine if we should use this weakness as a long-term buying opportunity.

### A solid quarter of top- and bottom-line growth

Here's a quick breakdown of 12 of the most notable statistics from Gildan's three-month period ended on July 2, 2017, compared with its three-month period ended on July 3, 2016:

Metric	Q2 2017	Q2 2016	Change
Printwear net sales	US\$480.1 million	US\$471.2 million	1.9%
Branded Apparel net sales	US\$235.3 million	US\$217.6 million	8.1%
Total net sales	US\$715.4 million	US\$688.8 million	3.9%
Gross profit	US\$213.3 million	US\$189.0 million	12.9%
Gross margin	29.8%	27.4%	240 basis points
Adjusted operating income	US\$123.9 million	US\$105.4 million	17.6%
Adjusted operating margin	17.3%	15.3%	200 basis points
Adjusted EBITDA	US\$165.4 million	US\$145.1 million	14%
Adjusted net earnings	US\$110.5 million	US\$96.4 million	14.6%
Adjusted diluted earnings per share (EPS)	US\$0.49	US\$0.41	19.5%
Cash flow from operating activities	US\$179.9 million	US\$162.0 million	11%
Free cash flow	US\$162.1 million	US\$130.2 million	24.5%

### Announcement regarding its 2017 guidance

In the earnings release, Gildan made an important announcement regarding its guidance for 2017. The

company stated that it now expects its adjusted EPS for the full year to be at the high-end of its projected US\$1.60-1.70 range, and it continues to expect net sales growth in the high single-digit range.

### What should you do with Gildan now?

It was a good quarter overall for Gildan, and it capped off a great first half of the year for the company, in which its net sales increased 7.7% year over year to US\$1.38 billion, its adjusted EBITDA increased 18.5% year over year to US\$304.3 million, and its adjusted EPS increased 27.5% year over year to US\$0.88.

It's also important to note that Gildan's second-quarter adjusted EPS surpassed the consensus estimate of analysts polled by **Thomson Reuters**, which called for US\$0.48, but its revenues came up well short of expectations, which called for US\$752.03 million. The revenue miss is the likely cause of the weakness in its stock today, but I think it represents a great entry point for long-term investors for two primary reasons.

First, it's undervalued. Gildan's stock now trades at just 17.5 times the high end of its adjusted EPS outlook on 2017 and only 16 times the consensus analyst estimate of US\$1.86 for 2018, both of which are very inexpensive compared with its five-year average price-to-earnings multiple of 22.6. These multiples are also inexpensive given its current earnings-growth rate and its estimated 13.9% long-term growth rate.

Second, it's a great dividend-growth stock. Gildan currently pays a quarterly dividend of US\$0.0935 per share, equal to US\$0.374 per share annually, which gives it a 1.3% yield. A 1.3% yield is far from high, but what Gildan lacks in yield it makes up for in growth; it has raised its annual dividend payment for four consecutive years, and its 19.9% hike in February has it positioned for 2017 to mark the fifth consecutive year with an increase, and I think its very strong growth of free cash flow will allow this streak to continue for another five years at least.

With all of the information provided above in mind, I think Foolish investors should consider using the weakness in Gildan's stock to begin scaling in to long-term positions.

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