Gildan Activewear Inc. Has Dropped 8% in 3 Months: Is the Stock a Good Buy Today?

Description

Gildan Activewear Inc. (TSX:GIL)(NYSE:GIL) has seen its stock decline 8% in the past three months, and it could be a good opportunity to buy the stock on the dip. The apparel company acquired American Apparel earlier this year, and the hope was that it would help take Gildan's sales and profits to new levels.

I will take a closer look at the company to see if you should consider adding Gildan to your portfolio today.

Strong expectations for the remainder of 2017

Despite contributions from American Apparel, in its second-quarter results, Gildan saw sales rise less than 4% from the prior year. This is down from Q1, where the company saw its sales grow by as much as 12%. However, profits for Q2 were up over 13% year over year, as the company saw improvements in its gross margin, which increased from 27% last year to almost 30% in Q2.

As a result of two strong quarters, the company said that its guidance for 2017 will be at the high end of its original forecast, which would put it at $1.70 earnings per share and well ahead of the $1.47 the company posted in its last fiscal year.

Gildan has seen steady growth over the years

Since 2012, the company has seen its sales grow by 33%, while profits have increased by 134%. In its most recent year, Gildan saw a year-over-year revenue increase of 7% and a 46% improvement in its bottom line. The company has seen sales rise for seven consecutive years and is on pace to continue that trend again this year.

Valuation multiples make the stock a bit expensive

Gildan's stock currently trades at about 23 times its earnings and 3.3 times book value. These multiples put the share price at a bit of a premium and may even make the stock a bit overpriced given the mediocre sales growth that we've seen recently from the company, especially since it included the American Apparel brand in its results.

What the technicals say

The stock finished trading last week at just under $38, and with some resistance at about $39, there does not appear to be much upside left in the share price. The last two times the stock hit $39, it declined back down to about $37, only to start another ascent. The share price has been stuck in a range the last few months, and it will likely stay there until the company releases its third-quarter earnings in November.

What this means for investors

Gildan has shown to be a stable and profitable company, and you can expect its share price to grow over the years. The company's debt-to-equity ratio of just 0.34 and current ratio of 5.5 should give investors some comfort in knowing that Gildan could easily handle any setback or financial challenge, thanks to its strong balance sheet.

The stock is definitely a good buy for the long term, but the technicals, along with the high valuation multiples, suggest that if you want to have better odds of maximizing your return, you may want to wait for a drop in price first before investing.

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