



## Why Gildan Activewear Inc. Fell as Much as 4.8% on Thursday

### Description

**Gildan Activewear Inc.** ([TSX:GIL](#))([NYSE:GIL](#)), one of world's largest manufacturers and distributors of apparel products, released its third-quarter earnings results and revised its full-year outlook Thursday morning, and its stock responded by falling as much as 4.8% in early trading before paring most of those losses and settling down just about 0.4%. The stock currently sits more than 9% below its 52-week high of US\$32.15 reached back on October 23, so let's break down the quarterly results and the fundamentals of the stock to determine if now is the time to buy.

### The results that sent the stock lower

Here's a quick breakdown of 10 of the most notable financial statistics from Gildan's three-month period ended October 1, 2017, compared with its three-month period ended October 2, 2016:

Metric	Q3 2017	Q3 2016	Change
Printwear sales	US\$480.7 million	US\$461.9 million	4.1%
Branded Apparel sales	US\$235.7 million	US\$253.1 million	(6.9%)
Total net sales	US\$716.4 million	US\$715.0 million	0.2%
Adjusted EBITDA	US\$167.7 million	US\$130.6 million	2.1%
Adjusted operating income	US\$127.4 million	US\$130.6 million	(2.5%)
Adjusted operating margin	17.8%	18.3%	(50 basis points)
Adjusted net earnings	US\$118.6 million	US\$116.4 million	1.9%
Adjusted diluted earnings per share (EPS)	US\$0.53	US\$0.50	6.0%
Cash flow from operating activities	US\$168.5 million	US\$225.8 million	(25.4%)
Free cash flow	US\$149.9 million	US\$184.9 million	(18.9%)

### Revisions to its outlook

As a result of its performance in the first nine months of the year, Gildan lowered its net sales growth outlook and raised its adjusted EPS, adjusted EBITDA, and free cash flow outlook for 2017. Here's a

breakdown of the company's new outlook versus its previous:

<b>Metric</b>	<b>New Outlook</b>	<b>Previous Outlook</b>
Consolidated net sales growth	Mid to high single-digit percentage range	High single-digit percentage range
Printwear net sales growth	High single-digit percentage range	High single-digit percentage range
Branded Apparel net sales growth	Low single-digit percentage range	High single-digit percentage range
Adjusted diluted EPS	US\$1.70-1.72	US\$1.60-1.70
Adjusted EBITDA	US\$580-590 million	US\$555-585 million
Free cash flow	In excess of US\$450 million	In excess of US\$425 million
Capital expenditures	Approximately US\$100 million	Approximately US\$100 million

### Should you buy on the dip?

It was a decent quarter at best for Gildan, and I was left with mixed feelings about the revisions to its outlook. The third-quarter results also came in mixed compared with analysts' expectations, which called for adjusted diluted EPS of US\$0.52 on revenue of US\$750 million, so I think the slight drop in its stock was warranted.

That being said, Gildan did post strong results for the first nine months of the year, with its net sales up 5% to US\$2.1 billion, its adjusted EBITDA up 12.1% to US\$472.1 million, and its adjusted diluted EPS up 18.5% to US\$1.41 compared with the year-ago period, so I think that's why the weakness in its stock was limited.

With all of this being said, I think the stock represents a great investment opportunity for long-term investors for two fundamental reasons.

First, it's undervalued. Gildan's stock now trades at just 17.1 times the median of its new EPS outlook for 2017 and only 15.5 times the consensus analyst estimate of US\$1.88 for 2018, both of which are very inexpensive compared with its five-year average multiple of 21.9; these multiples are also inexpensive given its current earnings-growth rate and its estimated 13.9% long-term earnings-growth rate.

Second, it's a stealth dividend-growth play. Gildan currently pays a quarterly dividend of US\$0.0935 per share, equating to US\$0.374 per share annually, which gives it a yield of about 1.3%. It's highly important for investors to note that the apparel company has raised its annual dividend payment each of the last four years, and that [its 19.9% hike](#) in February has it on track for 2017 to mark the fifth consecutive year with an increase.

Gildan's stock is now down more than 2.5% since its second-quarter earnings [release in August](#), but I think it represents a great long-term investment opportunity today, so I think Foolish investors should strongly consider beginning to scale in to long-term positions.

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