Forget Roots Corp.! Here's a Clothing Stock That's Also a Dividend-Growth King

Description

The **Roots Corp.** (TSX:ROOT) IPO dropped from $12 to nearly $9 in just a few trading sessions. That has got to be disappointing for management, which originally considered having an IPO price within the $14-16 range. One likely cause of the flop was the fact that the expected money raised ($200 million) would have gone directly to the company's founders, Michael Budman and Don Green. If I were an IPO investor, that's definitely not what I'd want to hear.

Roots is positioning itself to move forward with its aggressive expansion plan with the hopes of increasing sales as high as $450 million by fiscal 2019, according to the preliminary filings. That's pretty ambitious when you consider the company clocked in just $281.9 million worth of sales in 2016. I think management is overly optimistic, especially when you consider how bleak the retail industry has been.

In my previous piece published before the Roots IPO, I urged investors to avoid the stock. Although the brand may have many loyal followers, I don't think Roots will be as successful as it thinks it'll be with its aggressive expansion plan, which may be spoiled by industry-wide headwinds.

If you're keen on investing in a clothing stocks, there are far better plays out there.

Consider **Gildan Activewear Inc.** (TSX:GIL)(NYSE:GIL), a generic clothing manufacturer which has built quite a wide moat for itself over the years.

How could you build a moat around generic clothing?

We're talking blank activewear like t-shirts, hoodies, and other customizable articles of clothing. These items are off-brand, generic, and anybody can make them, so there's no pricing power!

When many people think of clothing companies, they immediately think of design, branding, and fashion, all of which take time and money to develop over many years. Even then, designs are constantly changing to keep up with the latest trends in the fashion world. That's added volatility for the business, which is not attractive to potential investors.

With Gildan, take design and branding out of the equation. Well, at least for the most part. Gildan leaves the design and branding to its clients which can print whatever they wish on Gildan's commoditized articles of clothing. Instead of wasting time on design and keeping up with the latest fashion trends, Gildan has been able to focus on driving manufacturing costs to the floor and passing the savings on to its clients, who'll be doing the designing and customizations.

It's a much better business model than Roots or other clothing firms when you think about it. Hoodies and t-shirts will always be in fashion, so as an investor, you really don't need to worry about branding, fashion, and all other efforts that may eat away at a company's ROE. (Gildan's current ROE is currently at 18.38% TTM.)

Bottom line

Investing in the clothing industry can be complicated. Nobody can predict fashion trends, but with Gildan, you won't have to. The company's dividend has been hiked by a huge amount since it first started paying one over five years ago. That's stability that many of today's clothing businesses lack.

Shares of GIL currently trade at an 18.36 price-to-earnings multiple, substantially lower than the company's five-year historical average price-to-earnings multiple of 24.8. Shares are cheap, and although the 1.21% dividend yield may seem meagre, it's got to be comforting to know that the dividend will likely grow by a huge amount over the coming years.

With all this in mind, Foolish investors would be wise to initiate a position in Gildan today.

Stay smart. Stay hungry. Stay Foolish.

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