This Blue-Chip Just Reported Solid Numbers and the Market Yawned: Is it Time to Pounce?

Description

Shares of apparel company **Gildan Activewear** (TSX:GIL)(NYSE:GIL) fell about 1% on Thursday after posting its Q2 results and guidance. GAAP earnings per share clocked in at $0.49 for the quarter — missing the consensus by $0.04 — as revenue improved nicely.

So what?

Overall, it was a pretty good quarter for the company. It maintained respectable top-line growth amid higher costs.

"Sales of $802 million in the quarter, which set another second-quarter record, were up approximately 5% over last year, setting us on track to deliver our full year sales target of mid-single-digit growth," wrote the company. "Our growth drivers continued to perform well, including growth momentum in fashion basics, fleece, and global lifestyle brand sales."

The stock had been on fire heading into the report, so investors shouldn't be too concerned over the muted response from Bay Street.

Management cited a 6.5% jump in activewear sales for the higher revenue, which helped offset a 2.2% decline in its hosiery and underwear category. While international sales were up slightly, Gildan continued to see softness in Europe and slower growth in China.

What's worth keeping an eye on is Gildan's gross margin, which slipped 50 basis points year over year to 27.8%. The decline reflects higher raw material costs, inflationary pressures, and unfavourable currency changes. All of those factors more than offset the gains made from a favourable product mix and higher selling prices. On the bright side, Gildan expects the gross margin to recover in Q4 as raw material and other input costs subside. Moreover, SG&A expenses in Q2 declined 50 basis points as a percentage of revenue , suggesting that management is doing well to improve efficiency.

Gildan generated $26 million in free cash flow in Q2, down from $98 million in the prior year. The lower figure primarily reflects a $56 million purchase of land in Bangladesh as well as expenses related to its capacity expansion initiatives.

During the quarter, Gildan also repurchased about 2.62 million common shares at a total cost of roughly $97.4 million. The company ended the quarter with net debt of $989.2 million, representing 1.8 times its trailing 12-month EBITDA — largely in line with its target leverage range.

Now what?

Business is good at Gildan, and I wouldn't bet on things to drastically change anytime soon. With results over the first half of 2019 tracking nicely within the company's expectations, management reaffirmed its sales view — mid-single-digit growth — for the full year.

Moreover, the company bumped up the lower range of both its full-year EPS and diluted EPS guidance. Gildan now sees 2019 GAAP diluted EPS of $1.80-$1.85 and adjusted diluted EPS of $1.95-$2.00 versus its previous view of $1.75-$1.85 and $1.90-$2.00, respectively. Management also said it expects adjusted EBITDA of more than $615 million and continues to see full-year free cash flow of $300 million-$350 million.

For Q3, the company expects sales growth in the mid-single-digit range.

It's obvious that Gildan has plenty of operating momentum on its side, but is the stock worth buying? Well, with the shares now up 55% over the past year and trading at a forward P/E of 20, I'd wait for some of the optimism to subside before jumping in.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:GIL (Gildan Activewear Inc.)
2. TSX:GIL (Gildan Activewear Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks

2. Investing

Tags

1. Editor's Choice

Date
2025/07/05
Date Created
2019/08/02
Author
bpacampara