



After a 26% Plunge, Is This Stock a Buy?

Description

Friday was not a good day for **Gildan Activewear** ([TSX:GIL](#))([NYSE:GIL](#)) shareholders. Shares plummeted 26%, falling \$11.96 to close at \$34.53 each.

The reason for the fall was Gildan cutting guidance for the rest of 2019, telling investors it saw weakness in its imprintables market, which supplies branded clothing for businesses. The company expected low single-digit increases in that part of the market but instead is seeing a decrease in sales. A more general decrease in sales in both Europe and China further added to management's bearish sentiment.

The company also pre-released third-quarter earnings, which are expected to check in at US\$0.51 per share. That represents a 7% decline from the same quarter last year. Sales also declined, dipping 2% for the quarter.

Full-year guidance is now for earnings in the US\$1.50-US\$1.55 per share range, down significantly from earlier expectations of US\$1.80-US\$1.85 per share. Free cash flow, meanwhile, is projected to be impacted even more, falling from an expected range of US\$300-US\$350 million to between US\$200 and US\$250 million.

It's pretty easy to see why investors were so freaked out about the company's guidance cut. Updated guidance represents a significant haircut compared to previous expectations.

Gildan has quietly been one of the TSX Composite's big [long-term winners](#). Should investors who missed out look at loading up today? Or was Friday's bad news just a preview of more pain to come? Let's take a closer look.

Recent history

I remember last July when Gildan last released lacklustre earnings. Shares tanked more than 10%, eventually closing at under \$35 for the first time in more than a year. I was interested in adding the company to my own portfolio.

Less than a month later, shares had rebounded, and then some. The stock was trading at more than \$40 per share.

It isn't the first time Gildan shares have reacted this way after a big decline. If you look at the long-term chart, any big sell-offs have been short-lived, with shares always recovering.

Longer-term results, meanwhile, have been nothing short of stunning. Even after the massive decline on Friday, Gildan has still compounded investor money at a rate of 14.5% annually over the last decade. That's enough to turn a \$10,000 investment made back in October 2009 into something worth \$38,730 today, assuming dividends were reinvested.

The future

The main reason why Gildan shares have performed so well over the last decade is the company has a really smart business plan. Yes, manufacturing t-shirts, socks, and other pieces of clothing is a competitive business, but Gildan does a nice job competing by keeping a relentless eye on costs and by using facilities in Central America to manufacture. This cuts down shipping costs.

Financial results are also better than many investors first assume. The company regularly posts 15% operating margins, with improvements in the manufacturing process helping margins creep slowly higher. It also posts good returns on invested capital and returns on equity, two things every investor should be looking for.

In short, Gildan is a better business than most would assume at first glance.

Gildan is also giving back to shareholders in a big way. The company spent more than US\$1 billion from 2016 to 2018 buying back shares and hiked its dividend by 20% per year from 2013 to 2018. Shares currently yield a hair over 2%.

The bottom line

Gildan's management has done an excellent job positioning the company for long-term success. That is proven by the stock's terrific total return over the last decade.

Will the next decade be as profitable? It's hard to say, but I like Gildan's chances. There's still plenty of organic growth potential, and technological improvements should continue to protect margins. The company has the potential to make acquisitions, too.

It looks to me like today would be a terrific [long-term entry point](#). But don't delay. Gildan shares don't stay cheap for long.

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