Canadians: Avoid This 1 Stock in 2020!

Description

Gildan Activewear (TSX:GIL)(NYSE:GIL) is engaged in the manufacturing and the sale of active wear, hosiery, and underwear. The company is vertically integrated and its brands include Gildan, American Apparel, Comfort Colors and Gold Toe.

The company reports a market capitalization of $7.7 billion with a 52-week high of $53.33 and a 52-week low of $30.81.

Intrinsic price

Based on my calculations using a discounted cash flow (DCF) valuation model, I determined that Gildan has an intrinsic value of $20.66 per share. Assuming less than average industry growth, the intrinsic value would be $19.94 per share and higher than average industry growth would result in an intrinsic value of $21.46 per share.

At the current share price of $37.78, I believe Gildan is significantly overvalued. Investors looking to add a clothing manufacturer to their TFSA or RRSP should avoid Gildan at current prices.

A correction in the market could put enough downward pressure on share prices, which may present an opportunity to buy shares at less than intrinsic value.

Gildan has an enterprise value of $4.9 billion, representing the theoretical price a buyer would pay for all of Gildan's outstanding shares plus its debt. One of the things to note about Gildan is its low leverage with debt at 8% of total capital versus equity at 92% of total capital.

Financial highlights

For the nine months ended September 30, 2019, the company reports a strong balance sheet with retained earnings of US$1.756 billion. This is a very good sign for investors, as it suggests the years of cumulative net income have been reinvested in the company to fuel growth.

With a cash balance of US$56 million compared to current debt obligations of US$13 million, the company has enough cash on hand to meet its short-term debt payments. This is a good sign for investors, as it reduces the company's reliance on its credit facilities.

Overall sales are flat year over year at US$2.166 billion in 2018 and US$2.165 billion in 2019, but due to increasing COGS and operating expenses, operating income for the period is down to US$265 million from US$325 million in 2018.

The company is a dividend paying entity with a current dividend yield of 1.88% (a small but present dividend).

A highlight of the company's cash flow statement is the US$128 million spent on the repurchase and cancellation of shares. This is often a strategy used by senior management to indicate to investors that it believes the current share price is undervalued.

Foolish takeaway

Investors looking to buy shares of a clothing manufacturing company should steer clear of Gildan. Using a discounted cash flow (DCF) valuation model, I determined that Gildan has an intrinsic value of $20.66, which is materially less than the $37.78 it is currently trading at.

The key drivers of this are growing accounts receivable and capital expenditure accounts, which increase cash outflows and reduce the amount of free cash the company has for other activities.

This is offset by a solid balance sheet with strong retained earnings and a low leverage with debt at 8% of total capital versus equity at 92%.

Despite this, I believe that Gildan will face challenges throughout 2020 as a market correction is anticipated, which will drive down its share price.

For now, I would stay away from Gildan but keep an eye on the price and buy in when it dips below intrinsic value.

CATEGORY

1. Investing

TICKERS GLOBAL

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

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Investing

Date
2025/07/21
Date Created
2019/12/29
Author
cliu