Coronavirus Bear Market: Where to Invest $500 Right Now!

Description

In September 2019, I had written about why **Gildan Activewear** (TSX:GIL)(NYSE:GIL) is a bad stock to buy during a recession. It's been just over four months, and a lot has changed in the world. The economy is tethering due to a drastic slowdown in consumer spending. COVID-19 has hammered Gildan Activewear stock down by almost 70%, making it attractive for contrarian investors.

Gildan management put out an update on its business in wake of the COVID-19 pandemic on March 23, and there was some straight talk on the analyst conference call that followed. Guidance for 2020 has been withdrawn. Any new guidance will only come in after the first-quarter results.

Retail has been hit badly

Demand in the retail sector is going to fall off a cliff. Gildan is seeing a significant decline in its imprintables collection, which is directly linked to events where there are mass gatherings of people. Last week, sales were down by almost 50% compared to 15% in the week before that.

The company has decided to stop production in all manufacturing facilities until the middle of April, including in Honduras, Haiti, the Dominican Republic, and Bangladesh, allowing it to manage inventory levels with current demand. Gildan has inventory worth $1.2 billion that will be used to kickstart its sales when people start getting out again.

Drawing on credit lines

At the end of fiscal 2019, Gildan's net debt-to-EBITDA ratio was 1.6 times. It had $862 million of net debt drawn on $1.6 billion of credit facilities and has now drawn on the remaining credit lines of almost $600 million to ensure liquidity.

Management says the company is capable of handling cash needs for now. If the situation persistsafter mid-April, the company says it will lower its overall cash requirement to $35-$40 million a month.Capex will be held at $2-$3 million per quarter.

What next for investors?

As Gildan prepares for a lockdown, there are a few green shoots coming in from China. Distributor POS (point of sale) in China was down 70% in February and early March, as people stayed home. Now that China has the COVID-19 situation under control and people are going back to work, POS has improved to -35%. The company expects POS across other markets to continue to decline in the short term and will start to rebound as people get back to work.

During the 2008 financial crisis, Gildan worked with its distributors and partners to ensure that there were no bad debts. The company expects the same this time around but has warned that this crisis is very different from the situation back then.

Dividend yield right now is a tempting 4.8%, but Gildan has said that dividend payout is not the top priority right now, which means that investors can brace for a dividend cut if the situation continues to worsen.

When production resumes, Gildan says it will take 24 hours to get back to normal business. Gildan is trading at less than $18.1 right now. It was trading at $39 at the end of January. Analysts have given it an average price target of $34.21 in 12 months. That’s just below a 100% appreciation from current levels.

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