Get Defensive With This “Essentials” Stock

Description

Apparel businesses were significantly impacted due to the pandemic. However, companies like **Gildan Activewear** (TSX:GIL)(NYSE:GIL) continue to be excellent defensive options for investors today.

Indeed, this company appears to be well positioned to make a strong recovery following a decline in sales in 2020. Here’s why I think this essentials stock should be on investors’ radar today.

Strategic moves have positioned this company well

Gildan is in a relatively simple business. The maker of essentials such as t-shirts and undergarments has continued to be a sector most investors have ignored of late.

I think some of this sentiment makes sense. After all, this sector isn’t one that growth investors would remotely be interested in.

Gildan’s business model is both simplistic and defensive. However, the company’s management team has made some impressive moves to retain profitability over time. Investments in a top-notch manufacturing process and an inexpensive vertically integrated supply chain are indicative of some of these moves. Indeed, Gildan has built a name for itself by building powerful brands and well-established relationships with customers.

A couple of years back, this company made changes to its organizational structure and consolidated some of its business segments. Such measures were taken to simplify its business operations. Years of acquisitions made the company’s business model rather complex. Simplification sounds easy to accomplish, but for investors in Gildan, simplicity is everything.

Gildan’s balance sheet looks attractive today following these moves. The company’s debt-to-equity ratio of 0.64 suggests the company’s moved to limit its overall debt burden. Positive margins and a highly defensive business model make this company an intriguing choice for defensive investors today.

The company's low-cost operations are undoubtedly attractive for investors. It has become much more efficient in designing, developing, and operating its manufacturing facilities over the years.

Most of these facilities are owned by this company itself, which enables it to have much more control over the costs, efficiency of the production process, quality of products, etc. Indeed, this company generates more than 90% of its revenue today by selling only products manufactured internally.

Bottom line

Expectations are that Gildan will continue to be a great long-term defensive holding for investors.

However, I'm not the only one who thinks this.

Sabahat Khan, an analyst at RBC Dominion Securities, believes that further improvements are on the horizon. He believes Gildan's capital-allocation plans and a surge in orders due to inventory restocking through the remainder of the year should be bullish for Gildan in the quarters to come.

Growth in the U.S. market and a continued retail reopening position Gildan as a sneaky pandemic reopening play. With a growth-to-value rotation underway, I wouldn't be surprised to see Gildan catch a bid from here.

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