



Gildan or Lululemon: Which Stock Is the Better Pick?

Description

As several economies in North America have reopened, consumer spending trends would have shifted towards discretionary products, making retail companies a top bet right now. Companies that are part of the retail sector were severely impacted due to COVID-19, even though some of them invested aggressively to create a visible e-commerce presence.

The recovery in retail stocks is expected to continue well into 2022 and, keeping this in mind, let's see which between **Gildan Activewear** ([TSX:GIL](#))([NYSE:GIL](#)) and **Lululemon** ([NASDAQ:LULU](#)) is a better buy.

Gildan Activewear stock has almost doubled in the last year

Sales of Gildan Activewear fell from US\$2.82 billion in 2019 to US\$1.98 billion last year. Analysts expect sales to touch US\$2.76 billion in 2021 and rise to US\$2.94 billion in 2022. This will allow Gildan Activewear to improve its bottom line from a loss per share of US\$0.18 in 2020 to earnings of US\$2.43 in 2022.

Despite supply chain constraints, Gildan Activewear managed to more than triple sales in the [second quarter of 2021](#) to US\$747 million. However, it was still 7% lower than sales in 2019. Its free cash flow stood at a record US\$208 million, allowing the company to improve its liquidity position to US\$1.3 billion. Its net debt fell to US\$362.5 million, enabling Gildan to end the quarter with a net debt to adjusted EBITA multiple of 0.6, which was significantly lower than a multiple of 3.5 times at the end of 2020.

Gildan attributed the recovery in revenue to higher sales volumes and a favourable product mix. Its adjusted operating income was US\$148.6 million, indicating a margin of 19.9% compared to a loss of US\$181.1 million in the year-ago period.

Given the company's market cap of US\$7.93 billion, Gildan Activewear is valued at a forward price-to-2021-sales multiple of three, which is reasonable.

Lululemon stock is up 2,670% since its IPO

One of the fastest-growing retail companies in the world, Lululemon has also built massive long-term wealth for investors. Lululemon stock has returned 2,670% since its IPO in July 2007, valuing it at a market cap of over US\$50 billion.

In the first quarter of fiscal 2022 which ended in April, Lululemon sales touched US\$1.23 billion, which was 51% higher compared to the same period in fiscal 2020.

In fiscal 2021, the company generated 52% of its sales from the direct-to-consumer or e-commerce channels, up from just 29% in fiscal 2019. However, Lululemon continues to open stores in popular shopping locales. It ended Q1 with 523 company-operated stores, up from 489 in the prior-year period.

Lululemon will be reporting its [second-quarter results](#) tomorrow, and analysts expect sales to rise by 48% year over year to US\$1.33 billion. In the last quarterly earnings call, the retail giant remained upbeat about the sales growth at retail locations, which more than doubled year over year.

The final takeaway

Lululemon has trailed Gildan Activewear when it comes to year-to-date returns. But it has crushed Gildan stock if we look at longer time ranges. While Lululemon stock is trading at a higher valuation, it remains a quality bet given its strong brand positioning, long growth runway, and potential for geographic expansion.

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