Is Gildan Activewear (TSX:GIL) Stock Undervalued?

Description

Warren Buffett famously said that investors should buy the stocks of great companies and hold them forever. At the Motley Fool, we take Buffett's advice to heart and believe in the power of a long-term perspective when it comes to investing.

Everyone likes to find a good, undervalued stock. During a market correction, even the shares of the best companies will tumble, giving brave investors a rare opportunity to purchase them at a discount. In many ways, the best value investors make their fortunes by buying the stocks of beaten-down but otherwise solid companies.

Company

Gildan Activewear (TSX:GIL)(NYSE:GIL) manufactures and sells various apparel products across the world, most notably in the form of its various activewear and underwear products: T-shirts, fleece tops and bottoms, sports shirts, shapewear, and intimates. The company sells its products to wholesale distributors, screen printers, and embellishers, as well as to online retailers and lifestyle brand companies.

GIL has decent margins for its sector, with an operating margin of 18.80%. Fundamentals are also good, with return on assets of 11.31% and return on equity of 37.20%. The company has seen good growth recently, with 31.40% quarterly year-over-year (YoY) revenue growth and 48.50% quarterly earnings growth. GIL also pays a modest dividend yield of 2.31%.

Valuation

Currently, GIL is trading at $36.12, which is extremely near the 52-week low of $35.62. This indicates that GIL may have bottomed out, especially if volume has dropped off.

GIL currently has a market cap of $7.07 billion, which gives it an enterprise value of $7.9 billion with an enterprise value-to-EBITDA ratio of 9.55, which is similar to peers in the consumer cyclical sector.

For the past 12 months, the price-to-earnings ratio of GIL was 10.8, with a price-to-free cash flow ratio of 17.87, price-to-book ratio of 3.81, price-to-sales ratio of 2.28, and book value per share of approximately $9.81. In terms of these metrics, GIL does not look undervalued.

GIL is currently covered by a total of 21 analysts. Of them, 16 have issued a “buy” rating, zero have issued a “sell” rating, and five have issued a “hold” rating. This is generally a considered a bullish sign, given the majority of ratings are “buy.”

GIL has a Graham number of 27.63 for the last 12 months — a measure of a stock’s upper limit intrinsic value based on its earnings per share and book value per share. Generally, if the stock price is below the Graham number, it is considered to be undervalued and worth investing in. In this case, GIL does not look undervalued.

The Foolish takeaway

The current valuation metrics do not point to GIL being undervalued enough to buy with a margin of safety. However, despite its current share price being more or less fairly valued, long-term investors should consider establishing a position if they have the capital. Over the next 10-20 years, your entry price won’t matter as much if GIL continues its strong track record of growth and profitability. Consistently buying shares of GIL, especially if the market corrects, can be a great way to lock in a low cost basis.

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