



Should You Buy Gildan Activewear Stock in February 2023?

Description

Gildan Activewear ([TSX:GIL](#)) is a consumer discretionary stock that has delivered total returns of roughly 12.8% in the last 10 years or so. In the same period, the Canadian stock market (using **iShares S&P/TSX 60 Index ETF** as a proxy) returned 8.8% per year. In the last 12 months, it's down about 22%.

At \$39.73 per share at writing, the analyst consensus 12-month price target represents a discount of about 22%. So, it may be a good time to consider adding some shares.

Let's dig deeper into the company.

Gildan Activewear's business

As its name implies, Gildan Activewear is an apparel manufacturer. Specifically, as its latest annual report describes, it's a "vertically integrated manufacturer of everyday basic apparel, including activewear, underwear, and hosiery products." It also sells to "wholesale distributors, screenprinters and embellishers in North America, Europe, Asia-Pacific, and Latin America, as well as to retailers in North America, including mass merchants, department stores, national chains, specialty retailers, craft stores and online retailers."

Furthermore, it "manufactures products for global lifestyle brand companies who market these products under their own brands through their own retail establishments, e-commerce platforms, and/or to third-party retailers."

Over the years, the company has made substantial capital investments in its fixed assets. Namely, its vertically integrated manufacturing facilities, include yarn production, textile and sock manufacturing, and sewing operations. Essentially, it controls all aspects of the production process from beginning to end for the garments it makes. So, the company should be able to better control its operating costs.

Recent results

The pandemic in 2020 was a rare phenomenon that resulted in Gildan posting a loss as the company had to suspend production. Consequently, it also experienced a significant rebound from the pandemic low, more than tripling investors' money from the bottom to the top. Otherwise, in the past five years, the company normally achieved returns on equity of more or less around 15%.

So far, for 2022, Gildan has reported three quarters of results. For the nine months, it increased net sales by 18% to \$2,520 million. The growth was carried by activewear sales that witnessed a jump of 25%, "driven by higher net selling prices, higher unit sales volumes and favourable product-mix," as noted in its third-quarter press release.

Gross profit came in at \$758 million with the gross profit margin dropping by 3.2% to 30.1%. Operating income growth was 7.6% to \$511 million with the operating margin falling 1.9% to 20.3%. Adjusted earnings per share climbed 25.5% to \$2.46 — helped by share buybacks.

Should you buy Gildan Activewear stock this month?

Management sees its North American business to continue to be relatively stable from imprintable channels benefiting from demand driven by travel, tourism, and large events. However, it expects weakness in its retail-related customers and international markets, which represent a smaller part of its business.

The consumer discretionary stock is not expensive, trading at about 9.4 times earnings. So, long-term investors will likely get market-beating returns as long, as management continues to execute as it has in the past five years.

However, keep in mind that the business is sensitive to economic downturns that shaves its earnings during harsh economic times. Therefore, it would be the best time to buy the stock when it is down substantially from gloomy economic headlines and sell the stock on subsequent rebounds. Because of its sensitivity to economic cycles, and as the [dividend stock](#) yields 2.3%, it's better for investors to target capital gains in the stock.

If you're on the fence, wait for its next earnings report for greater clarity. Gildan is set to report its fourth-quarter and full-year 2022 results on February 22. So, mark the date for the latest information on the company if you're interested. In the meantime, check out the [best Canadian stocks to buy](#) now.

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