Hanesbrands (HBI)

Updated June 12th, 2018 by Aristofanis Papadatos

Key Metrics

Current Price:	$20	**5 Year CAGR Estimate:**	9.7%	**Quality Percentile:**	N/A
Fair Value Price:	$23	**5 Year Growth Estimate:**	4.0%	**Momentum Percentile:**	N/A
% Fair Value:	88%	**5 Year Valuation Multiple Estimate:**	2.7%	**Total Return Percentile:**	N/A
Dividend Yield:	3.0%	**5 Year Price Target**	$28	**Valuation Percentile:**	N/A

Overview & Current Events

Hanesbrands is a leading marketer of everyday basic innerwear and activewear apparel. It sells its products under well-known brands, such as Hanes and Champion, in America, Europe, Australia and Asia-Pacific.

Hanesbrands has spent $2.9 B on acquisitions in the last seven years. Nevertheless, it has dramatically underperformed the S&P 500 in the last three years, as it has lost 39% whereas the index has rallied 32%. The company has been striving to assimilate its past acquisitions while it has been facing increasing competition in its business and a secular shift of consumers towards online sales. Due to these factors and increased distribution costs, the EPS of the company are expected to fall 9% this year.

However, the management is doing its best to address these challenges. More precisely, it is trying to grow the online presence of the company. In addition, when the company manages to assimilate the acquired entities, it will enjoy lower production costs thanks to economies of scale. As a result, it will reap the benefits from higher volumes and lower unit costs. The stock has significant potential to reward its shareholders if the business performance shows signs of improvements.

In its Q1 earnings report, Hanesbrands exceeded the analysts' estimates on both lines but the stock plunged 10% in the next three days, mostly due to the disappointment of the market for the steady guidance of the management. It is also remarkable that the company did not benefit from the recent tax reform, as it reported a higher tax rate this year.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$0.52	$0.42	$0.53	$0.67	$0.66	$0.98	$1.42	$1.66	$1.85	$1.93	***$1.76***	***$2.14***
DPS	----	----	----	----	----	$0.15	$0.30	$0.40	$0.44	$0.60	***$0.60***	***$0.70***

Management and analysts expect Hanesbrands to earn $1.76 per share this year. If this forecast materializes, the company will have grown its EPS at a 5.5% average annual rate in the last four years. In order to forecast the future EPS of the company, it is critical to note the above mentioned challenges facing the company. Therefore, it is reasonable to expect Hanesbrands to grow its EPS by about 4.0% per year on average in the next five years, from $1.76 this year to $2.14 in 2023.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	11.6	10.2	12.4	10.0	11.5	13.8	16.2	18.6	14.3	11.4	***11.4***	***13.0***
Avg. Yld.	---	---	---	---	---	1.1%	1.3%	1.3%	1.7%	2.7%	***3.0%***	***2.5%***

Due to its poor recent performance, Hanesbrands is currently trading at a markedly low P/E ratio of 11.4, which is much lower than its 10-year average P/E of 13.0. As the company is likely to begin to recover from next year, its stock is likely to revert to its average valuation level. Therefore, the stock is likely to enjoy a 2.7% annualized gain thanks to the expansion of its P/E ratio in the next five years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	39.0%	38.0%	36.3%	37.0%	39.1%	39.4%	36.6%	38.2%	32.8%	36.1%	***32.0%***	***35.0%***
Debt/A	94.8%	89.9%	85.2%	83.1%	75.6%	69.9%	73.4%	77.2%	82.3%	90.0%	***90.4%***	***88.0%***
Int. Cov.	2.0	1.7	2.5	2.9	3.2	5.1	5.9	5.0	5.1	4.3	***4.0***	***4.0***
Payout	----	----	----	----	----	15.3%	21.1%	24.1%	23.8%	31.1%	***34.1%***	***32.7%***
Std. Dev.	56.7%	95.2%	28.4%	35.8%	21.7%	21.9%	17.7%	26.7%	19.8%	26.0%	***24.0%***	***22.0%***

Due to its series of acquisitions, Hanesbrands has leveraged its balance sheet in recent years, with its debt/assets ratio rising from 69.9% in 2013 to 90.4% now. Consequently, its interest expense currently "eats" 36% of its operating income. Moreover, as interest rates are on the rise, the debt load will become even more burdensome if the company does not reduce it. It is also remarkable that the company was widely expected to raise its dividend in April but the management held it constant and disappointed shareholders. As the payout ratio is low, the reason for the absence of a dividend hike is probably the leveraged balance sheet.

Investors should also note that Hanesbrands is vulnerable to recessions. During rough economic periods, consumers reduce the amounts they spend on apparel and thus exert pressure on the earnings of apparel companies. As a recession has not shown up for nine consecutive years and interest rates are on the rise, this is a risk factor to consider for Hanesbrands.

Final Thoughts & Recommendation

Hanesbrands has dramatically underperformed the market in recent years thanks to a series of challenges it has been facing. In addition, it has a long way to go until it reaps the benefits from its past acquisitions. Nevertheless, thanks to its cheap valuation, the stock can offer a 9.7% average annual return over the next five years thanks to 4.0% annual EPS growth, its 3.0% dividend and a 2.7% annualized expansion of its P/E ratio. On the other hand, due to the lack of predictability of its results and its leveraged balance sheet, the stock is not suitable for income-oriented investors. This became even more evident recently, when the company failed to raise its dividend.

Total Return Breakdown by Year