Hanesbrands (HBI)

Updated August 13th, 2018 by Aristofanis Papadatos

Key Metrics

Current Price:	$19	**5 Year CAGR Estimate:**	11.1%	**Volatility Percentile:**	73.1%
Fair Value Price:	$23	**5 Year Growth Estimate:**	4.0%	**Momentum Percentile:**	6.4%
% Fair Value:	84%	**5 Year Valuation Multiple Estimate:**	3.9%	**Valuation Percentile:**	91.3%
Dividend Yield:	3.2%	**5 Year Price Target**	$28	**Total Return Percentile:**	80.1%

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 billion on acquisitions in the last seven years. Nevertheless, it has dramatically underperformed the S&P 500 since it peaked about three years ago, as it has lost 46% whereas the index has rallied 35%. The company has been striving to assimilate its past acquisitions while it has been facing increasing competition in intimate apparel and a secular shift of consumers towards online sales. Due to these factors and increased distribution costs, the earnings-per-sharw of the company are expected to fall 9% this year.

In early August, Hanesbrands reported (8/1/18) its financial results for the second quarter of fiscal 2018. Due to the above challenges, a higher tax rate due to the recent tax reform and higher interest expense, its adjusted EPS fell 15% vs. last year. While the results were very close to the consensus, the stock plunged 19% on that day due to its announcement that its *C9 by Champion* program at Target would expire in January, 2020. As this contract has been successful in the last 15 years, the market was somewhat justified to punish the stock. However, in the last 12 months, this contract has generated just $380 M sales out of the total $6.6 B (5.7% of the total sales). Moreover, management does not expect any effect from the termination of the contract on next year's results. Furthermore, it expects margin expansion in the back half of the year thanks to acquisition synergies and organic sales growth and hence it has kept its guidance intact. The company has grown its constant-currency organic sales for four consecutive quarters.

Hanesbrands is doing its best to address the above challenges. 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.

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	***$1.75***	***$2.13***
DPS	----	----	----	----	----	$0.15	$0.30	$0.40	$0.44	$0.60	***$0.60***	***$0.70***

Management and analysts expect Hanesbrands to earn $1.75 per share this year. If this forecast materializes, the company will have grown its EPS at a 5.4% 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.

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	***10.9***	***13.0***
Avg. Yld.	---	---	---	---	---	1.1%	1.3%	1.3%	1.7%	2.7%	***3.2%***	***2.5%***

Due to its poor recent performance, Hanesbrands is currently trading at a markedly low P/E ratio of 10.9, 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 3.6% 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%	***34.2%***	***35.0%***
Debt/A	94.8%	89.9%	85.2%	83.1%	75.6%	69.9%	73.4%	77.2%	82.3%	90.0%	***89.7%***	***88.0%***
Int. Cov.	2.0	1.7	2.5	2.9	3.2	5.1	5.9	5.0	5.1	4.3	***3.5***	***4.0***
Payout	----	----	----	----	----	15.3%	21.1%	24.1%	23.8%	31.1%	***34.3%***	***32.9%***
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%***

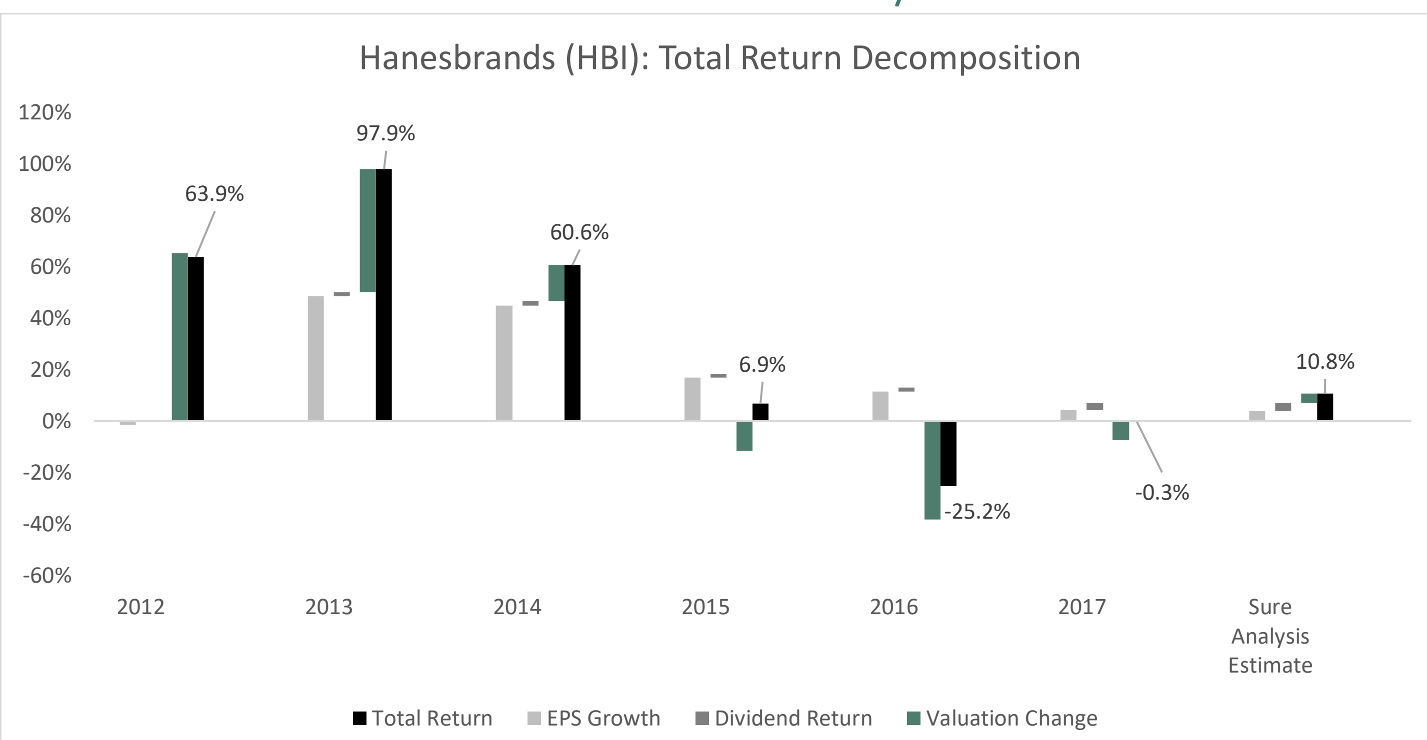
Due to its acquisitions, Hanesbrands has leveraged its balance sheet in recent years, with its debt/assets ratio rising from 69.9% in 2013 to 89.7% now. Thus its interest expense currently consumes 29% of its operating income. As interest rates are on the rise, the debt load will become even more burdensome if the company does not reduce it. The company was widely expected to raise its dividend in April but 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.

Hanesbrands is also 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 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 11.1% average annual return over the next five years thanks to 4.0% annual EPS growth, its 3.2% dividend and a 3.6% 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 in April, when the company failed to raise its dividend. We rate the stock as a hold for continuing investors.

Total Return Breakdown by Year



Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.