



Hanesbrands (HBI)

Updated November 5th, 2018 by Aristofanis Papadatos

Key Metrics

Current Price:	\$16	5 Year CAGR Estimate:	13.7%	Volatility Percentile:	74.0%
Fair Value Price:	\$22	5 Year Growth Estimate:	3.0%	Momentum Percentile:	11.5%
% Fair Value:	72%	5 Year Valuation Multiple Estimate:	6.9%	Growth Percentile:	10.8%
Dividend Yield:	3.8%	5 Year Price Target	\$26	Valuation Percentile:	88.8%
Dividend Risk Score:	C	Retirement Suitability Score:	C	Total Return Percentile:	75.7%

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 but it has dramatically underperformed the S&P 500 in the last three years, as it has lost 51% whereas the index has rallied 30%. 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. The high debt load, which is from past acquisitions, burdens the company via high interest expense. Moreover, the company has a much higher tax rate this year due to the recent tax reform. Due to these factors and increased distribution costs, earnings-per-share of the company are poised to fall 11% this year.

In early November, Hanesbrands reported (11/1/18) its financial results for the third quarter of fiscal 2018. The company increased its sales by 7% in activewear and 11% in international markets thanks to strong momentum in Champion but its innerwear sales decreased 7% due to intense competition and high raw material costs. In addition, the company incurred a \$14 million charge due to the bankruptcy of Sears Holdings Corporation. Overall, the adjusted earnings-per-share were in line with expectations, at \$0.55. While management expects the strong momentum in Champion to continue in Q4, it lowered its guidance for the earnings-per-share of the year from about \$1.75 to \$1.69-\$1.73.

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. 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	\$1.72	\$1.99
DPS	---	---	---	---	---	\$0.15	\$0.30	\$0.40	\$0.44	\$0.60	\$0.60	\$0.70
Shares	374.1	381.6	384.8	390.1	393.1	397.8	400.8	391.7	378.7	360.1	364.6	350.0

Due to the revised guidance of management, we have slightly lowered our earnings-per-share estimate for this year, from \$1.75 to \$1.72. If this forecast materializes, the company will have grown its earnings-per-share at a 4.9% average annual rate in the last four years. Due to the above-mentioned challenges facing the company, we expect 3.0% annual earnings-per-share growth rate over 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	9.3	13.0
Avg. Yld.	---	---	---	---	---	1.1%	1.3%	1.3%	1.7%	2.7%	3.8%	2.7%

Due to its poor recent performance, Hanesbrands is currently trading at a P/E ratio of 9.3, which is much lower than its 10-year average P/E of 13.0. As the stock is likely to begin to recover from next year, it is likely to revert to its average valuation level in the next five years. It will thus enjoy a 6.9% annualized gain thanks to the expansion of its P/E ratio.

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.



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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%	35.0%	35.0%
Debt/A	94.8%	89.9%	85.2%	83.1%	75.6%	69.9%	73.4%	77.2%	82.3%	90.0%	88.0%	85.0%
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%	34.9%	35.2%
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%

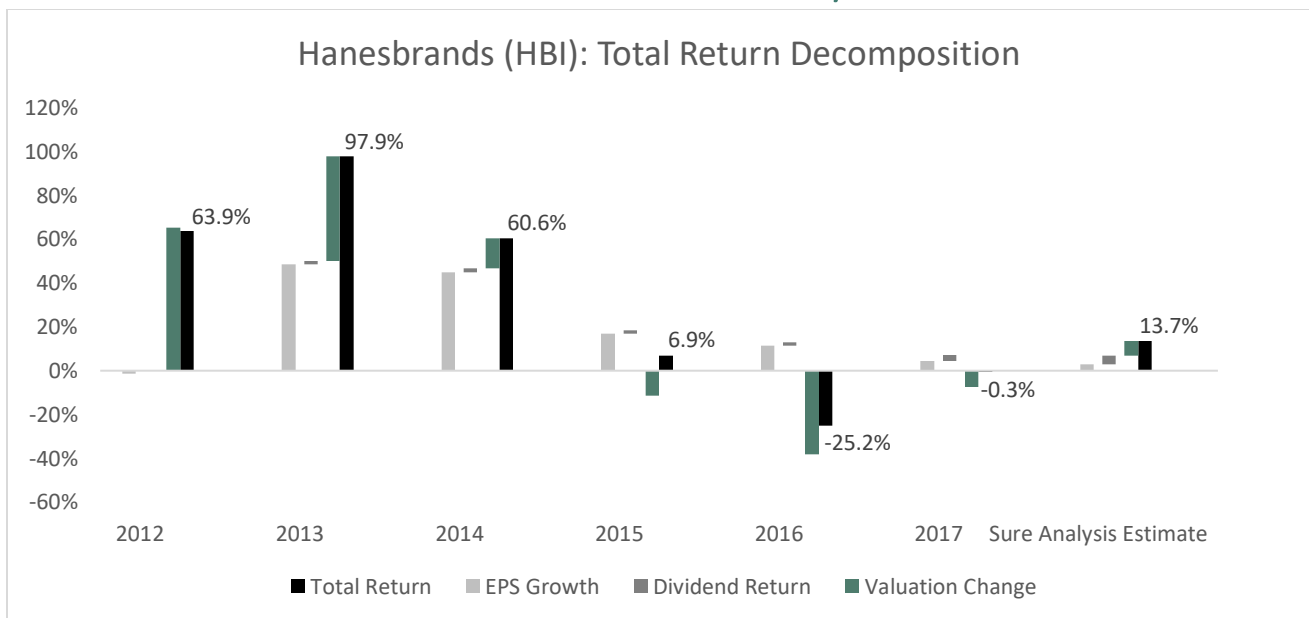
Due to its acquisitions, Hanesbrands has leveraged its balance sheet in recent years, with its debt/assets ratio rising from 69.9% in 2013 to 88.0% now. Thus its interest expense currently consumes 25% of its operating income. As interest rates are on the rise, the debt load will become even more burdensome 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. Fortunately, management is in the process of reducing the debt load.

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 13.7% average annual return over the next five years. But, due to its leveraged balance sheet and potential recession risk, the stock is not suitable for income-oriented investors. This became evident in April, when the company failed to raise its dividend. We rate the stock as a hold due to its risks.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	4249	3891	4146	4434	4526	4628	5325	5732	6028	6471
Gross Profit	1377	1265	1376	1493	1420	1612	1904	2136	2276	2491
Gross Margin	32.4%	32.5%	33.2%	33.7%	31.4%	34.8%	35.8%	37.3%	37.8%	38.5%
SG&A Exp.	1010	941	995	1046	980	1097	1340	1541	1500	1740
D&A Exp.	115	97	87	91	93	91	98	104	103	122
Operating Profit	368	325	381	447	440	515	564	595	776	751
Operating Margin	8.7%	8.3%	9.2%	10.1%	9.7%	11.1%	10.6%	10.4%	12.9%	11.6%
Net Profit	127	51	211	267	165	330	405	429	539	62
Net Margin	3.0%	1.3%	5.1%	6.0%	3.6%	7.1%	7.6%	7.5%	8.9%	1.0%
Free Cash Flow	-10	288	27	83	513	548	444	128	522	569
Income Tax	36	7	18	42	31	65	60	45	34	473

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	3534	3327	3790	4035	3632	4090	5208	5598	6930	6895
Cash & Equivalents	67	39	44	35	43	116	240	319	460	422
Accounts Receivable	405	451	503	471	506	579	672	680	837	903
Inventories	1291	1049	1323	1608	1253	1283	1537	1815	1841	1875
Goodwill & Int. Ass.	469	458	609	603	553	1004	1414	1535	2384	2570
Total Liabilities	3349	2992	3227	3354	2745	2859	3821	4322	5707	6209
Accounts Payable	347	352	412	452	404	466	621	673	762	868
Long-Term Debt	2238	1959	2131	2038	1518	1685	1984	2603	3742	3964
Shareholder's Equity	185	335	563	681	887	1231	1387	1276	1224	686
D/E Ratio	12.09	5.85	3.79	2.99	1.71	1.37	1.43	2.04	3.06	5.78

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	3.6%	1.5%	5.9%	6.8%	4.3%	8.6%	8.7%	7.9%	8.6%	0.9%
Return on Equity	53.7%	19.7%	47.1%	42.9%	21.0%	31.2%	30.9%	32.2%	43.2%	6.5%
ROIC	5.0%	2.2%	8.5%	9.9%	6.4%	12.4%	12.9%	11.8%	12.2%	1.3%
Shares Out.	374.1	381.6	384.8	390.1	393.1	397.8	400.8	391.7	378.7	360.1
Revenue/Share	11.16	10.17	10.60	11.17	11.28	11.36	13.05	14.20	15.68	17.52
FCF/Share	-0.03	0.75	0.07	0.21	1.28	1.34	1.09	0.32	1.36	1.54

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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