



Hanesbrands (HBI)

Updated February 12th, 2019 by Aristofanis Papadatos

Key Metrics

Current Price:	\$18	5 Year CAGR Estimate:	11.3%	Volatility Percentile:	81.9%
Fair Value Price:	\$23	5 Year Growth Estimate:	3.0%	Momentum Percentile:	38.9%
% Fair Value:	78%	5 Year Valuation Multiple Estimate:	5.0%	Growth Percentile:	11.8%
Dividend Yield:	3.3%	5 Year Price Target	\$27	Valuation Percentile:	82.4%
Dividend Risk Score:	B	Retirement Suitability Score:	B	Total Return Percentile:	57.5%

Overview & Current Events

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

Hanesbrands spent \$2.9 billion on acquisitions in the last seven years but has dramatically underperformed the S&P 500 in the last three years, losing 30% while the index rallied 43%. The company is striving to assimilate its past acquisitions while it facing increasing competition in intimate apparel and a secular shift towards online sales. The high debt load from past acquisitions burdens the company via high interest expenses.

In early February, Hanesbrands reported (2/7/19) financial results for the fourth quarter of fiscal 2018. The company increased its sales by 7% and its constant-currency organic sales by 6% thanks to strong growth in activewear and global Champion expansion. It was the highest quarterly growth rate for organic sales in 8 years and the sixth consecutive quarterly increase. Thanks to strong results, the company reduced its debt by \$518 million in the second half of the year and reduced its leverage (Net Debt/EBITDA) from 3.9 in the first quarter to 3.3 now. Despite sales growth, earnings-per-share decreased from \$0.52 to \$0.48 due to a higher tax rate as a result of U.S. tax reform.

Management provided decent guidance for this year. It expects ~2% net sales growth and ~3% adjusted earnings-per-share growth.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$0.42	\$0.53	\$0.67	\$0.66	\$0.98	\$1.42	\$1.66	\$1.85	\$1.93	\$1.71	\$1.78	\$2.06
DPS	---	---	---	---	\$0.15	\$0.30	\$0.40	\$0.44	\$0.60	\$0.60	\$0.60	\$0.70
Shares	381.6	384.8	390.1	393.1	397.8	400.8	391.7	378.7	360.1	364.7	365.1	350.0

Hanesbrands has grown its earnings-per-share at a 4.8% average annual rate over the last four years. Although the company managed to grow its sales for the first time in four years last year, we do not expect it to exceed its recent earnings-per-share growth rate due to the above-mentioned challenges facing the company. Overall, we expect a 3.0% annual earnings-per-share growth rate over the next five years, from \$1.78 this year to \$2.06 in 2024.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	10.2	12.4	10.0	11.5	13.8	16.2	18.6	14.3	11.4	10.9	10.1	12.9
Avg. Yld.	---	---	---	---	1.1%	1.3%	1.3%	1.7%	2.7%	3.2%	3.3%	2.6%

Hanesbrands is currently trading at a P/E ratio of 10.1, which is much lower than its 10-year average P/E of 12.9. As the stock is likely to begin to recover, it is likely to revert to its average valuation level in the next five years.

It will thus enjoy a 5.0% annualized gain thanks to the expansion of its P/E ratio if it does return to its historical average valuation multiple by 2024.



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Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	----	----	----	----	15.3%	21.1%	24.1%	23.8%	31.1%	35.1%	33.7%	34.0%

Hanesbrands has well-known brands like Champion which give it a weak competitive advantage. However, the company is engaged in a highly competitive business and thus does not have a strong competitive advantage that allows it to command high margins or grow quickly.

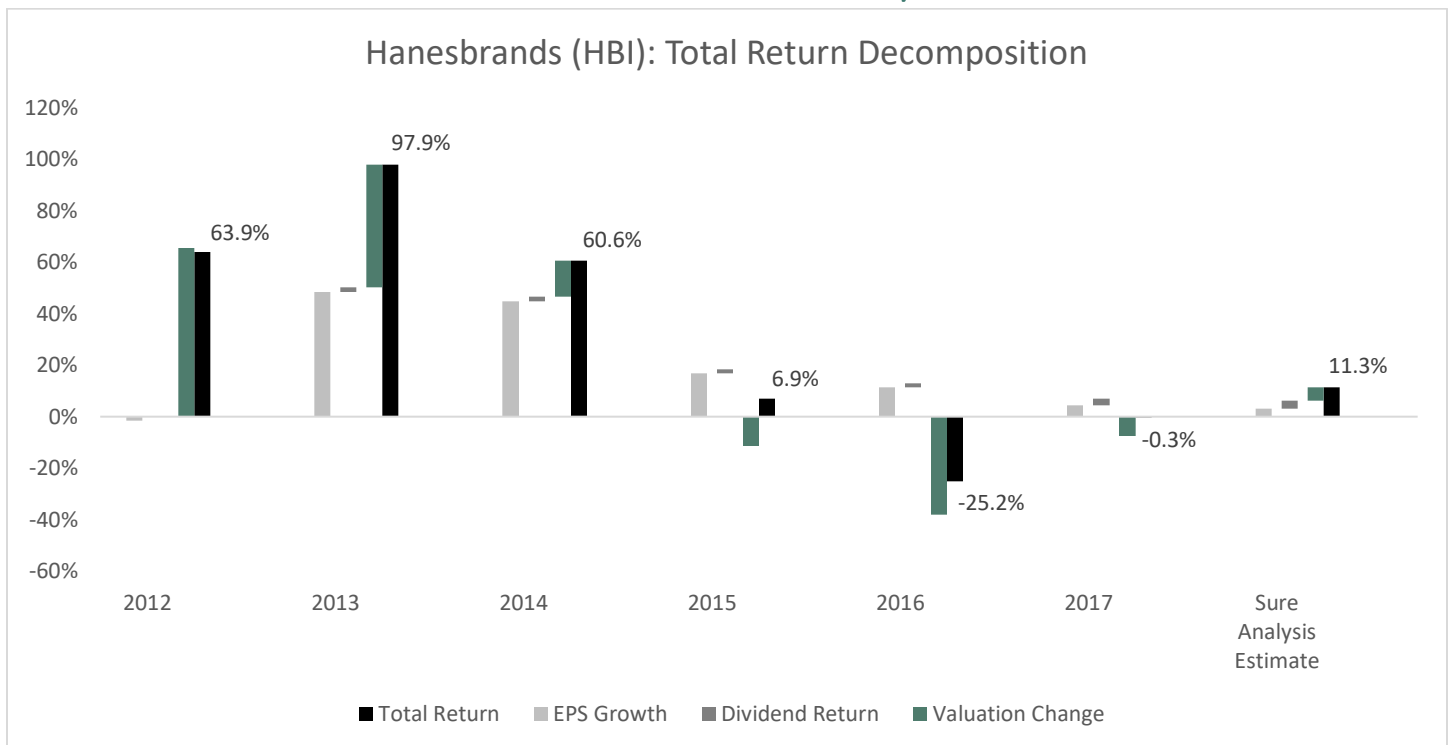
Due to its acquisitions, Hanesbrands has leveraged its balance sheet in recent years, with its debt/assets ratio rising from 69.9% in 2013 to 86.6% now. Its interest expense currently consumes 20% of its operating income. The company has paid the same dividend for 9 consecutive quarters. As the payout ratio is low, the reason for the absence of a dividend hike are probably the leveraged balance sheet and the uncertain business outlook. 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 is doing its best to address its challenges and can reward its shareholders if its turnaround succeeds. Thanks to its cheap valuation, the stock can offer an 11.3% average annual return over the next five years. However, *the stock has rallied 60% in less than two months*. In addition, the company has a long way to go until it reaps the benefits from its past acquisitions. Due to its leveraged balance sheet and lackluster growth prospects we rate the stock as a hold at current prices.

Total Return Breakdown by Year



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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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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	3891	4146	4434	4526	4628	5325	5732	6028	6471	6804
Gross Profit	1265	1376	1493	1420	1612	1904	2136	2276	2491	2657
Gross Margin	32.5%	33.2%	33.7%	31.4%	34.8%	35.8%	37.3%	37.8%	38.5%	39.0%
SG&A Exp.	941	995	1046	980	1097	1340	1541	1486	1718	1789
D&A Exp.	97	87	91	93	91	98	104	103	122	132
Operating Profit	325	381	447	440	515	564	595	790	772	868
Operating Margin	8.3%	9.2%	10.1%	9.7%	11.1%	10.6%	10.4%	13.1%	11.9%	12.8%
Net Profit	51	211	267	165	330	405	429	539	62	553
Net Margin	1.3%	5.1%	6.0%	3.6%	7.1%	7.6%	7.5%	8.9%	1.0%	8.1%
Free Cash Flow	288	27	83	513	548	444	128	522	569	557
Income Tax	7	18	42	31	65	60	45	34	473	94

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	3327	3790	4035	3632	4090	5208	5598	6930	6895	7256
Cash & Equivalents	39	44	35	43	116	240	319	460	422	433
Accounts Receivable	451	503	471	506	579	672	680	837	903	871
Inventories	1049	1323	1608	1253	1283	1537	1815	1841	1875	2054
Goodwill & Int. Ass.	458	609	603	553	1004	1414	1535	2384	2570	2797
Total Liabilities	2992	3227	3354	2745	2859	3821	4322	5707	6209	6286
Accounts Payable	352	412	452	404	466	621	673	762	868	1030
Long-Term Debt	1959	2131	2038	1518	1685	1984	2603	3742	3964	3981
Shareholder's Equity	335	563	681	887	1231	1387	1276	1224	686	970
D/E Ratio	5.85	3.79	2.99	1.71	1.37	1.43	2.04	3.06	5.78	4.10

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	1.5%	5.9%	6.8%	4.3%	8.6%	8.7%	7.9%	8.6%	0.9%	7.8%
Return on Equity	19.7%	47.1%	42.9%	21.0%	31.2%	30.9%	32.2%	43.2%	6.5%	66.8%
ROIC	2.2%	8.5%	9.9%	6.4%	12.4%	12.9%	11.8%	12.2%	1.3%	11.5%
Shares Out.	381.6	384.8	390.1	393.1	397.8	400.8	391.7	378.7	360.1	364.7
Revenue/Share	10.17	10.60	11.17	11.28	11.36	13.05	14.20	15.68	17.52	18.67
FCF/Share	0.75	0.07	0.21	1.28	1.34	1.09	0.32	1.36	1.54	1.53

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

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