



Hanesbrands (HBI)

Updated November 6th, 2019 by Aristofanis Papadatos

Key Metrics

Current Price:	\$16	5 Year CAGR Estimate:	8.4%	Volatility Percentile:	92.9%
Fair Value Price:	\$18	5 Year Growth Estimate:	3.0%	Momentum Percentile:	25.9%
% Fair Value:	90%	5 Year Valuation Multiple Estimate:	2.2%	Growth Percentile:	17.5%
Dividend Yield:	3.8%	5 Year Price Target	\$21	Valuation Percentile:	87.2%
Dividend Risk Score:	C	Retirement Suitability Score:	B	Total Return Percentile:	69.0%

Overview & Current Events

Hanesbrands is a leading marketer of everyday basic innerwear and activewear apparel. It has a market capitalization of \$5.8 billion and 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 five years, losing 42% while the index rallied 51%. The company is striving to assimilate its past acquisitions while it is 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 late October, Hanesbrands reported (10/31/19) financial results for the third quarter of fiscal 2019. The company grew its sales 1% and its constant-currency sales 2% thanks to double-digit growth in activewear and innerwear, 4% international growth, and rapid global expansion of Champion. Although the gross margin of 38.7% was lower than analysts' consensus, adjusted earnings-per-share rose 4% and met analysts' expectations thanks to reduced interest expense. A negative aspect of the report was the deceleration of the Global Champion business, which posted 25% sales growth, much lower than the 75% and 50% growth rates recorded in the first and second quarter, respectively.

Management slightly improved its earnings-per-share guidance for this year from \$1.72-\$1.80 to \$1.74-\$1.80. We have kept our estimate intact, at \$1.78.

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
Shares¹	381.6	384.8	390.1	393.1	397.8	400.8	391.7	378.7	360.1	364.7	366.0	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	9.0	10.0
Avg. Yld.	---	---	---	---	1.1%	1.3%	1.3%	1.7%	2.7%	3.2%	3.8%	3.4%

Hanesbrands is currently trading at a price-to-earnings ratio of 9.0, which is much lower than its 10-year average price-to-earnings ratio of 12.9. Due to the challenges facing the company and its uncertain outlook, we have assumed a fair

¹ In millions.

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earnings multiple of 10.0. If the stock reaches our fair valuation level in five years from now, it will enjoy a 2.2% annualized gain thanks to the expansion of its valuation level over this period.

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' well-known Champion brand gives the company a slight competitive advantage. However, the company is engaged in a highly competitive business that does not allow it to command high margins or grow quickly.

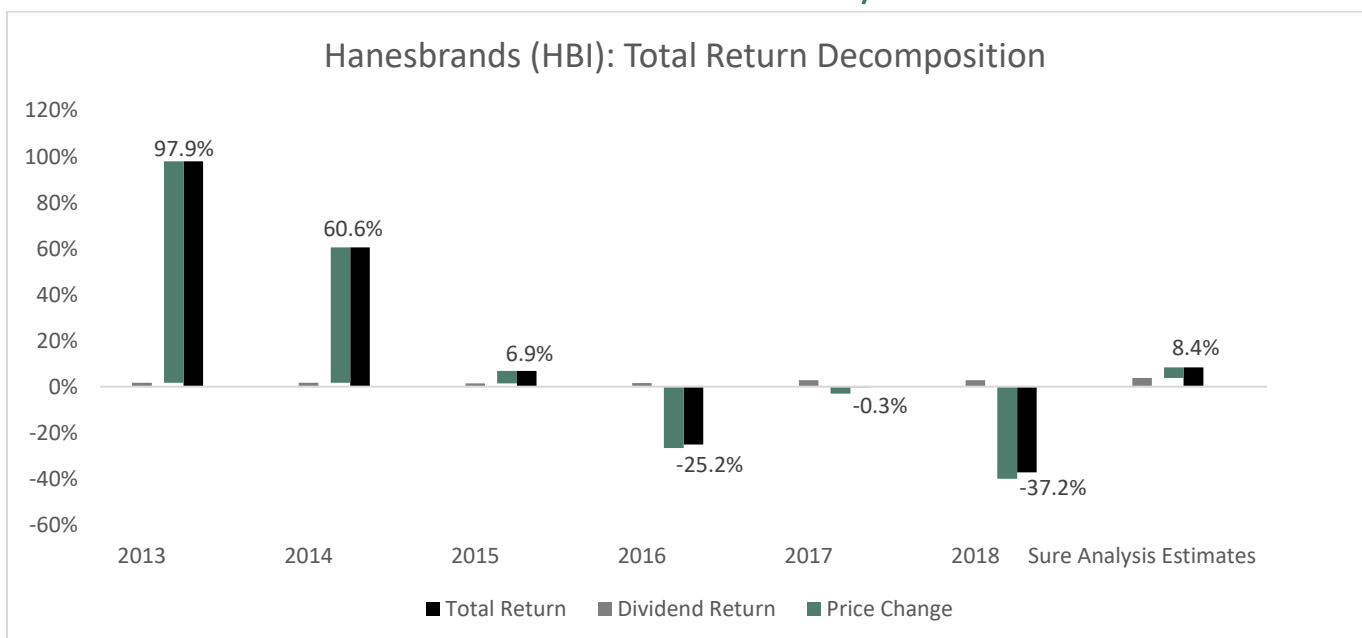
Due to its acquisitions, Hanesbrands has leveraged its balance sheet in recent years, with its debt/assets ratio rising from 69.9% in 2013 to 85.6% now. Its interest expense currently consumes 25% of its operating income. The company has paid the same dividend for 12 consecutive quarters. As the payout ratio is low, the reason for the absence of a dividend hike is probably the leveraged balance sheet and the uncertain business outlook. Fortunately, management is in the process of reducing the debt load. The company has reduced its net debt by \$470 million and its leverage (Net Debt/EBITDA) from 3.7 to 3.3 in the last 12 months. It thus remains on track to reduce its leverage to 2.9 by the end of the year.

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 a whole decade, 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. The stock can offer an 8.4% average annual return over the next five years thanks to 3.0% annual earnings-per-share growth, its 3.8% dividend and a 2.2% annualized expansion of its valuation level. However, the company has a long way to go until it reaps the benefits from its past acquisitions. Due to its leveraged balance sheet, lackluster growth prospects and vulnerability to recessions, we rate the stock as a hold for investors with a higher appetite for risk.

Total Return Breakdown by Year



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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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