



# Hanesbrands (HBI)

Updated February 10<sup>th</sup>, 2020 by Aristofanis Papadatos

## Key Metrics

<b>Current Price:</b>	\$14	<b>5 Year CAGR Estimate:</b>	11.1%	<b>Market Cap:</b>	\$5.1 B
<b>Fair Value Price:</b>	\$18	<b>5 Year Growth Estimate:</b>	3.0%	<b>Ex-Dividend Date:</b>	2/14/2020
<b>% Fair Value:</b>	80%	<b>5 Year Valuation Multiple Estimate:</b>	4.7%	<b>Dividend Payment Date:</b>	3/10/2020
<b>Dividend Yield:</b>	4.3%	<b>5 Year Price Target</b>	\$20	<b>Years Of Dividend Growth:</b>	0
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	B	<b>Last Dividend Increase:</b>	N/A

## Overview & Current Events

Hanesbrands is a leading marketer of everyday basic innerwear and activewear apparel. It has a market capitalization of \$5.1 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 -53% while the index rallied 58%. 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 early February, Hanesbrands reported (2/7/20) financial results for the fourth quarter of fiscal 2019. In the year, the company grew its sales 2% thanks to rapid global expansion of Champion and grew its currency-neutral organic sales for a second year in a row. It also grew its operating cash flows by 25%, to a record of \$803 million, and its adjusted earnings-per-share by 5.4%, from \$1.67 to \$1.76.

Hanesbrands exited its C9 Champion business in the mass retail channel and its DKNY license for intimate apparel, but management expects the remaining business to continue growing. The company expects a -3% decline in annual revenues in 2020 due to the above divestments and earnings-per-share of \$1.72-\$1.80, which are flat at the mid-point.

## Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
<b>EPS</b>	\$0.53	\$0.67	\$0.66	\$0.98	\$1.42	\$1.66	\$1.85	\$1.93	\$1.71	\$1.76	<b>\$1.76</b>	<b>\$2.04</b>
<b>DPS</b>	---	---	---	\$0.15	\$0.30	\$0.40	\$0.44	\$0.60	\$0.60	\$0.60	<b>\$0.60</b>	<b>\$0.70</b>
<b>Shares<sup>1</sup></b>	384.8	390.1	393.1	397.8	400.8	391.7	378.7	360.1	364.7	365.6	<b>367.0</b>	<b>360.0</b>

Hanesbrands has grown its earnings-per-share at a 4.4% average annual rate over the last five years. After four consecutive years of poor sales, the company has managed to grow its sales in each of the last two years, but it is still far from growing its earnings-per-share at a fast clip due to the above-mentioned challenges facing the company. Overall, we continue to expect a 3.0% annual earnings-per-share growth rate over the next five years, from \$1.76 this year to \$2.04 in 2025.

## Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
<b>Avg. P/E</b>	12.4	10.0	11.5	13.8	16.2	18.6	14.3	11.4	10.9	9.1	<b>8.0</b>	<b>10.0</b>
<b>Avg. Yld.</b>	---	---	---	1.1%	1.3%	1.3%	1.7%	2.7%	3.2%	3.7%	<b>4.3%</b>	<b>3.4%</b>

Hanesbrands is currently trading at a price-to-earnings ratio of 8.0, which is much lower than its 10-year average price-to-earnings ratio of 12.8. Due to the challenges facing the company and its uncertain outlook, we have assumed a fair

<sup>1</sup> In millions.

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earnings multiple of 10.0. If the stock reaches our fair valuation level in five years, it will enjoy a 4.7% annualized gain thanks to the expansion of its valuation level over this period.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	---	---	---	15.3%	21.1%	24.1%	23.8%	31.1%	35.1%	34.1%	<b>34.1%</b>	<b>34.1%</b>

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.

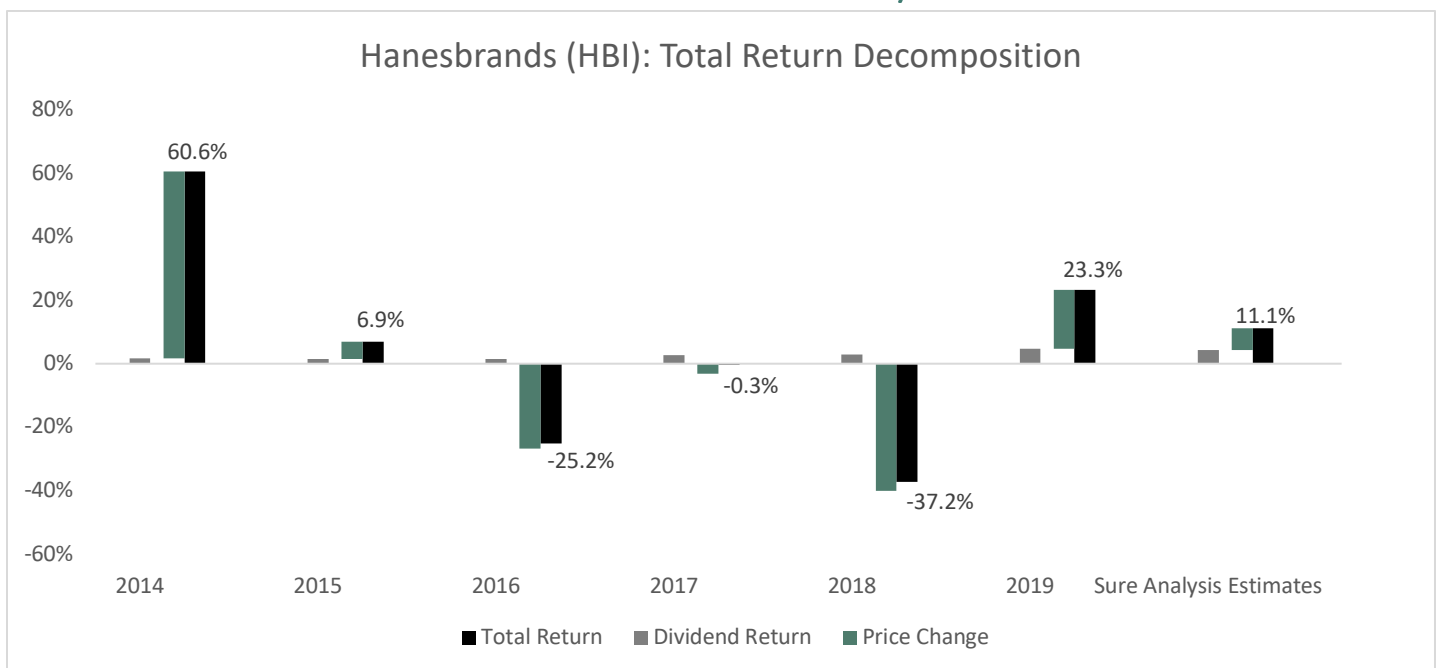
Due to its acquisitions, Hanesbrands has leveraged its balance sheet in recent years, with its debt/assets ratio rising from 69.9% in 2013 to 83.2% now. Its interest expense currently consumes 20% of its operating income. The company has paid the same dividend for 13 consecutive quarters. As the payout 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 reduced its net debt by \$460 million in the fourth quarter, reducing its leverage (Net Debt/EBITDA) from 3.3 at the end of 2018 to 2.9.

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 could offer an 11.1% average annual return over the next five years thanks to 3.0% annual earnings-per-share growth, its 4.3% dividend and a 4.7% 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.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Revenue</b>	4,146	4,434	4,526	4,628	5,325	5,732	6,028	6,471	6,804	6,967
<b>Gross Profit</b>	1,376	1,493	1,420	1,612	1,904	2,136	2,276	2,491	2,657	2,719
<b>Gross Margin</b>	33.2%	33.7%	31.4%	34.8%	35.8%	37.3%	37.8%	38.5%	39.0%	39.0%
<b>SG&amp;A Exp.</b>	995	1,046	980	1,097	1,340	1,541	1,486	1,718	1,789	1,830
<b>D&amp;A Exp.</b>	87	91	93	91	98	104	103	122	132	121
<b>Operating Profit</b>	381	447	440	515	564	595	790	772	868	890
<b>Operating Margin</b>	9.2%	10.1%	9.7%	11.1%	10.6%	10.4%	13.1%	11.9%	12.8%	12.8%
<b>Net Profit</b>	211	267	165	330	405	429	539	62	553	601
<b>Net Margin</b>	5.1%	6.0%	3.6%	7.1%	7.6%	7.5%	8.9%	1.0%	8.1%	8.6%
<b>Free Cash Flow</b>	27	83	513	548	444	128	522	569	557	702
<b>Income Tax</b>	18	42	31	65	60	45	34	473	94	79

## Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Total Assets</b>	3,790	4,035	3,632	4,090	5,208	5,598	6,930	6,895	7,256	7,354
<b>Cash &amp; Equivalents</b>	44	35	43	116	240	319	460	422	433	329
<b>Accounts Receivable</b>	503	471	506	579	672	680	837	903	871	815
<b>Inventories</b>	1,323	1,608	1,253	1,283	1,537	1,815	1,841	1,875	2,054	1,906
<b>Goodwill &amp; Int. Ass.</b>	609	603	553	1,004	1,414	1,535	2,384	2,570	2,797	2,757
<b>Total Liabilities</b>	3,227	3,354	2,745	2,859	3,821	4,322	5,707	6,209	6,286	6,117
<b>Accounts Payable</b>	412	452	404	466	621	673	762	868	1,030	959
<b>Long-Term Debt</b>	2,131	2,038	1,518	1,685	1,984	2,603	3,742	3,964	3,981	3,372
<b>Shareholder's Equity</b>	563	681	887	1,231	1,387	1,276	1,224	686	970	1,237
<b>D/E Ratio</b>	3.79	2.99	1.71	1.37	1.43	2.04	3.06	5.78	4.10	2.73

## Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Return on Assets</b>	5.9%	6.8%	4.3%	8.6%	8.7%	7.9%	8.6%	0.9%	7.8%	8.2%
<b>Return on Equity</b>	47.1%	42.9%	21.0%	31.2%	30.9%	32.2%	43.2%	6.5%	66.8%	54.4%
<b>ROIC</b>	8.5%	9.9%	6.4%	12.4%	12.9%	11.8%	12.2%	1.3%	11.5%	12.6%
<b>Shares Out.</b>	384.8	390.1	393.1	397.8	400.8	391.7	378.7	360.1	364.7	365.6
<b>Revenue/Share</b>	10.60	11.17	11.28	11.36	13.05	14.20	15.68	17.52	18.67	
<b>FCF/Share</b>	0.07	0.21	1.28	1.34	1.09	0.32	1.36	1.54	1.53	1.92

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

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