



Hanesbrands (HBI)

Updated May 13th, 2020 by Aristofanis Papadatos

Key Metrics

Current Price:	\$9	5 Year CAGR Estimate:	12.2%	Market Cap:	\$3.0 B
Fair Value Price:	\$8	5 Year Growth Estimate:	10.0%	Ex-Dividend Date:	5/18/2020
% Fair Value:	113%	5 Year Valuation Multiple Estimate:	-2.3%	Dividend Payment Date:	6/9/2020
Dividend Yield:	6.7%	5 Year Price Target	\$13	Years Of Dividend Growth:	0
Dividend Risk Score:	C	Retirement Suitability Score:	B	Last Dividend Increase:	N/A

Overview & Current Events

Hanesbrands is a leading marketer of everyday basic innerwear and activewear apparel. It has a market capitalization of \$3.0 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 -70% while the index rallied 38%. 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 April, Hanesbrands reported (4/30/20) financial results for the first quarter of fiscal 2020. The company was enjoying decent revenue growth until the pandemic struck towards the end of the quarter. As a result, revenue fell -17% over last year's quarter and adjusted earnings-per-share fell from \$0.22 to \$0.05. Management estimated that the pandemic reduced the earnings-per-share by \$0.20.

The effect of the coronavirus will be much greater in the second quarter, as most of the company's stores were closed for a considerable period. Moreover, although most states have allowed the stores to reopen in May, traffic is likely to be light due to social distancing. We thus expect Hanesbrands to earn only \$0.80 per share (instead of \$1.76) this year.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$0.53	\$0.67	\$0.66	\$0.98	\$1.42	\$1.66	\$1.85	\$1.93	\$1.71	\$1.76	\$0.80	\$1.29
DPS	---	---	---	\$0.15	\$0.30	\$0.40	\$0.44	\$0.60	\$0.60	\$0.60	\$0.60	\$0.65
Shares¹	384.8	390.1	393.1	397.8	400.8	391.7	378.7	360.1	364.7	365.6	353.0	350.0

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 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. Even worse, the company is now facing a strong headwind from the pandemic, which will cause a slump in earnings this year. We expect the pandemic to subside from next year but we do not expect Hanesbrands to return to last year's earnings anytime soon due to its high debt load and interest expense. Overall, we expect 10.0% annual earnings-per-share growth rate over the next five years off this year's low base of \$0.80.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	12.4	10.0	11.5	13.8	16.2	18.6	14.3	11.4	10.9	9.1	11.3	10.0
Avg. Yld.	---	---	---	1.1%	1.3%	1.3%	1.7%	2.7%	3.2%	3.7%	6.7%	5.0%

¹ In millions.

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Hanesbrands is currently trading at a price-to-earnings ratio of 11.3, which is 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 earnings multiple of 10.0. If the stock reaches our fair valuation level in five years, it will incur a -2.3% annualized drag due to the contraction 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%	75.0%	50.2%

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.

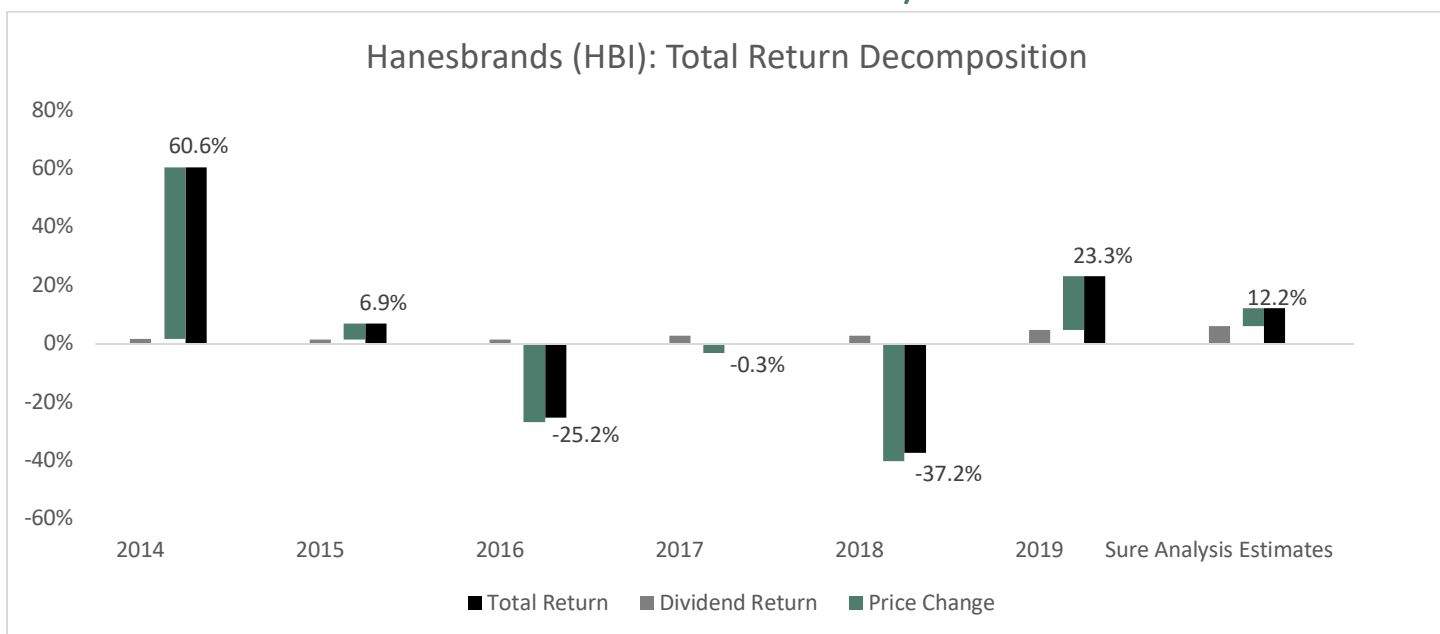
Due to its acquisitions, Hanesbrands has leveraged its balance sheet in recent years, with its debt/assets ratio rising from 69.9% in 2013 to 89.0% now. Its interest expense currently consumes 20% of its operating income. The company has paid the same dividend for 14 consecutive quarters. As the payout 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, though the pandemic will delay this process. The company reduced its net debt by \$460 million in the fourth quarter.

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. If the ongoing recession lasts longer than expected, Hanesbrands will come under great financial stress due to its high debt load.

Final Thoughts & Recommendation

Hanesbrands was trying to turnaround even before the pandemic so it is now under great stress. If the pandemic subsides from next year, the stock could offer a 12.2% average annual return over the next five years. However, if the downturn lasts longer than expected, the company will be highly vulnerable due to its debt pile. It also has a long way to go until it reaps the benefits from its past acquisitions. 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
Revenue	4,146	4,434	4,526	4,628	5,325	5,732	6,028	6,471	6,804	6,967
Gross Profit	1,376	1,493	1,420	1,612	1,904	2,136	2,276	2,491	2,657	2,719
Gross Margin	33.2%	33.7%	31.4%	34.8%	35.8%	37.3%	37.8%	38.5%	39.0%	39.0%
SG&A Exp.	995	1,046	980	1,097	1,340	1,541	1,486	1,718	1,789	1,830
D&A Exp.	87	91	93	91	98	104	103	122	132	121
Operating Profit	381	447	440	515	564	595	790	772	868	890
Operating Margin	9.2%	10.1%	9.7%	11.1%	10.6%	10.4%	13.1%	11.9%	12.8%	12.8%
Net Profit	211	267	165	330	405	429	539	62	553	601
Net Margin	5.1%	6.0%	3.6%	7.1%	7.6%	7.5%	8.9%	1.0%	8.1%	8.6%
Free Cash Flow	27	83	513	548	444	128	522	569	557	702
Income Tax	18	42	31	65	60	45	34	473	94	79

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	3,790	4,035	3,632	4,090	5,208	5,598	6,930	6,895	7,256	7,354
Cash & Equivalents	44	35	43	116	240	319	460	422	433	329
Accounts Receivable	503	471	506	579	672	680	837	903	871	815
Inventories	1,323	1,608	1,253	1,283	1,537	1,815	1,841	1,875	2,054	1,906
Goodwill & Int. Ass.	609	603	553	1,004	1,414	1,535	2,384	2,570	2,797	2,757
Total Liabilities	3,227	3,354	2,745	2,859	3,821	4,322	5,707	6,209	6,286	6,117
Accounts Payable	412	452	404	466	621	673	762	868	1,030	959
Long-Term Debt	2,131	2,038	1,518	1,685	1,984	2,603	3,742	3,964	3,981	3,372
Shareholder's Equity	563	681	887	1,231	1,387	1,276	1,224	686	970	1,237
D/E Ratio	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
Return on Assets	5.9%	6.8%	4.3%	8.6%	8.7%	7.9%	8.6%	0.9%	7.8%	8.2%
Return on Equity	47.1%	42.9%	21.0%	31.2%	30.9%	32.2%	43.2%	6.5%	66.8%	54.4%
ROIC	8.5%	9.9%	6.4%	12.4%	12.9%	11.8%	12.2%	1.3%	11.5%	12.6%
Shares Out.	384.8	390.1	393.1	397.8	400.8	391.7	378.7	360.1	364.7	365.6
Revenue/Share	10.60	11.17	11.28	11.36	13.05	14.20	15.68	17.52	18.67	19.06
FCF/Share	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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