



# Hanesbrands (HBI)

Updated August 18<sup>th</sup>, 2020 by Aristofanis Papadatos

## Key Metrics

<b>Current Price:</b>	\$16	<b>5 Year CAGR Estimate:</b>	7.1%	<b>Market Cap:</b>	\$5.5 B
<b>Fair Value Price:</b>	\$15	<b>5 Year Growth Estimate:</b>	6.0%	<b>Ex-Dividend Date:</b>	8/10/2020
<b>% Fair Value:</b>	110%	<b>5 Year Valuation Multiple Estimate:</b>	-1.9%	<b>Dividend Payment Date:</b>	9/1/2020
<b>Dividend Yield:</b>	3.8%	<b>5 Year Price Target</b>	\$19	<b>Years Of Dividend Growth:</b>	0
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	C	<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 \$5.5 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 -72% while the index rallied 45%. The company is trying 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 July, Hanesbrands reported (7/30/20) financial results for the second quarter of fiscal 2020. The pandemic reduced the earnings of Hanesbrands by -80% in the first quarter but the company transformed and smashed analysts' expectations in the second quarter. Adjusted revenue grew 7% over last year's quarter and adjusted earnings-per-share jumped 58%, from \$0.38 to \$0.60, and smashed analysts' consensus by \$0.62. The impressive earnings resulted from the shift of Hanesbrands to the production and sale of face masks and medical gowns. As the production line was built from scratch, management should undoubtedly be praised.

Management did not provide guidance for the full year due to the uncertainty caused by the pandemic but we have raised our earnings-per-share forecast for the year from \$0.80 to \$1.45 due to the impressive shift of the company to the production of protective garments.

## 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>\$1.45</b>	<b>\$1.94</b>
<b>DPS</b>	---	---	---	\$0.15	\$0.30	\$0.40	\$0.44	\$0.60	\$0.60	\$0.60	<b>\$0.60</b>	<b>\$0.65</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>351.0</b>	<b>340.0</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 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. On the bright side, Hanesbrands managed to turn the headwind from the pandemic to a tailwind and thus it has become resilient to the ongoing recession. As we have drastically raised our earnings-per-share forecast for this year, we now expect 6.0% (instead of 10.0%) annual earnings-per-share growth rate over the next five years.

## 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>11.0</b>	<b>10.0</b>
<b>Avg. Yld.</b>	---	---	---	1.1%	1.3%	1.3%	1.7%	2.7%	3.2%	3.7%	<b>3.8%</b>	<b>3.3%</b>

<sup>1</sup> In millions.

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Hanesbrands is currently trading at a price-to-earnings ratio of 11.0, 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 long-term 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 -1.9% 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%	41.4%	33.3%

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.

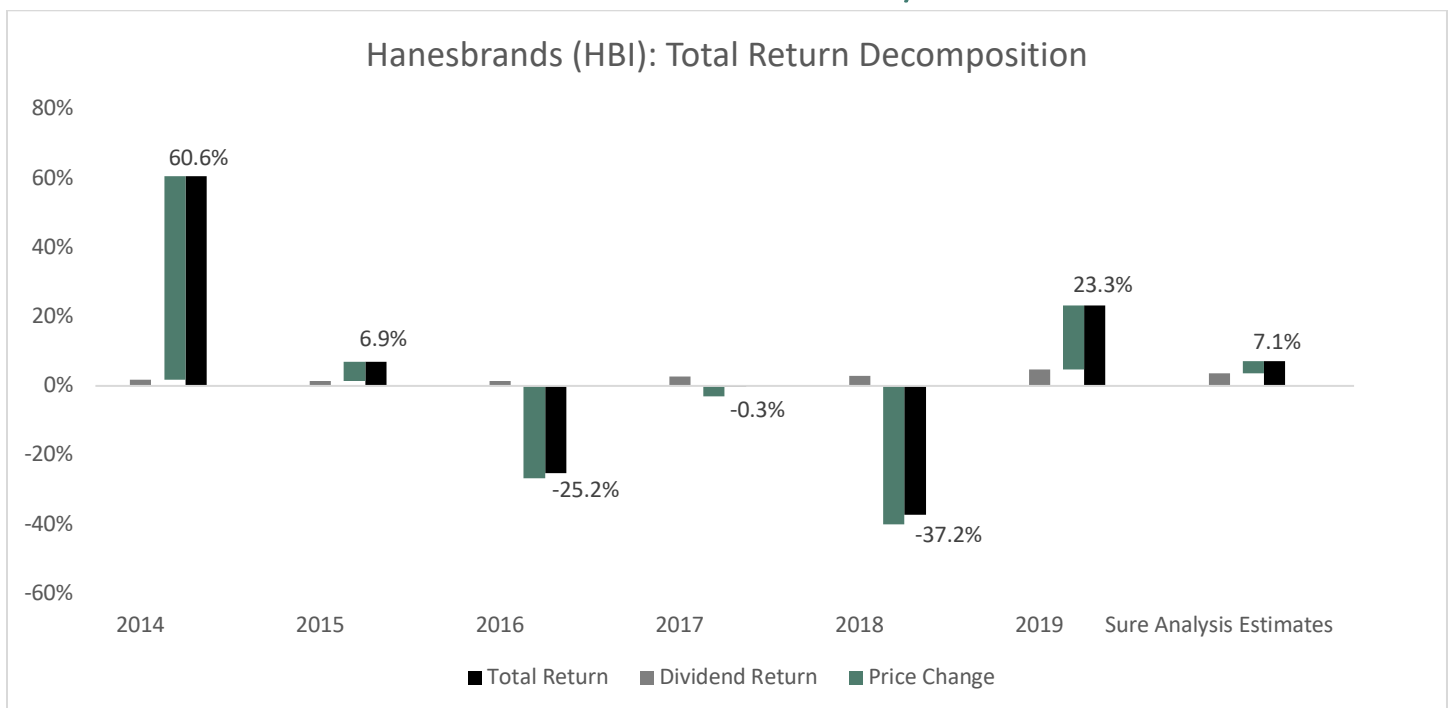
Due to its acquisitions, Hanesbrands has leveraged its balance sheet in recent years, with its debt/assets ratio rising from 69.9% in 2013 to 86.7% now. Its interest expense currently consumes 20% of its operating income. The company has paid the same dividend for 15 consecutive quarters. As the payout 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.

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. Fortunately, thanks to the aforementioned drastic shift in its business model, Hanesbrands has become resilient in the ongoing recession.

## Final Thoughts & Recommendation

Hanesbrands was in turnaround mode before the pandemic and has become resilient to the pandemic thanks to its recent transformation. On the other hand, the market has already rewarded the stock with a 90% rally off its lows. As a result, we expect the stock to offer a 7.1% average annual return over the next five years and thus rate it 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	19.06
<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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