



Hanesbrands (HBI)

Updated November 16th, 2020 by Aristofanis Papadatos

Key Metrics

Current Price:	\$13	5 Year CAGR Estimate:	11.6%	Market Cap:	\$4.5 B
Fair Value Price:	\$15	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	11/9/2020
% Fair Value:	90%	5 Year Valuation Multiple Estimate:	2.2%	Dividend Payment Date:	12/1/2020
Dividend Yield:	4.6%	5 Year Price Target	\$19	Years Of Dividend Growth:	0
Dividend Risk Score:	B	Retirement Suitability Score:	A	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 \$4.5 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 -57% while the index rallied 77%. 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 early November, Hanesbrands reported (11/5/20) financial results for the third quarter of fiscal 2020. Revenue decreased -2% over last year's quarter and the company incurred increased manufacturing costs as well as selling, general and administrative costs. As a result, adjusted earnings-per-share fell -11%, from \$0.47 to \$0.42. Even worse, due to the pandemic and increased production costs, management expects a -7% decrease in sales in the fourth quarter and adjusted earnings-per-share of \$0.25-\$0.30 in the quarter. This guidance greatly disappointed analysts, who had raised expectations after the impressive results in the previous quarter thanks to the shift of Hanesbrands to the production and sale of face masks and medical gowns. As a result, the stock fell -18% on the day of its earnings release.

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	\$1.45	\$1.94
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	351.0	340.0

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. On the bright side, Hanesbrands managed to turn the headwind from the pandemic to a tailwind and thus it has become somewhat resilient to the ongoing recession. We expect Hanesbrands to grow its annual earnings-per-share at a 6.0% average annual rate over the next five years.

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	9.0	10.0
Avg. Yld.	---	---	---	1.1%	1.3%	1.3%	1.7%	2.7%	3.2%	3.7%	4.6%	3.3%

Hanesbrands is currently trading at a price-to-earnings ratio of 9.0, 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

¹ In millions.

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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a fair earnings multiple of 10.0. If the stock reaches our fair valuation level in five years, 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	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.

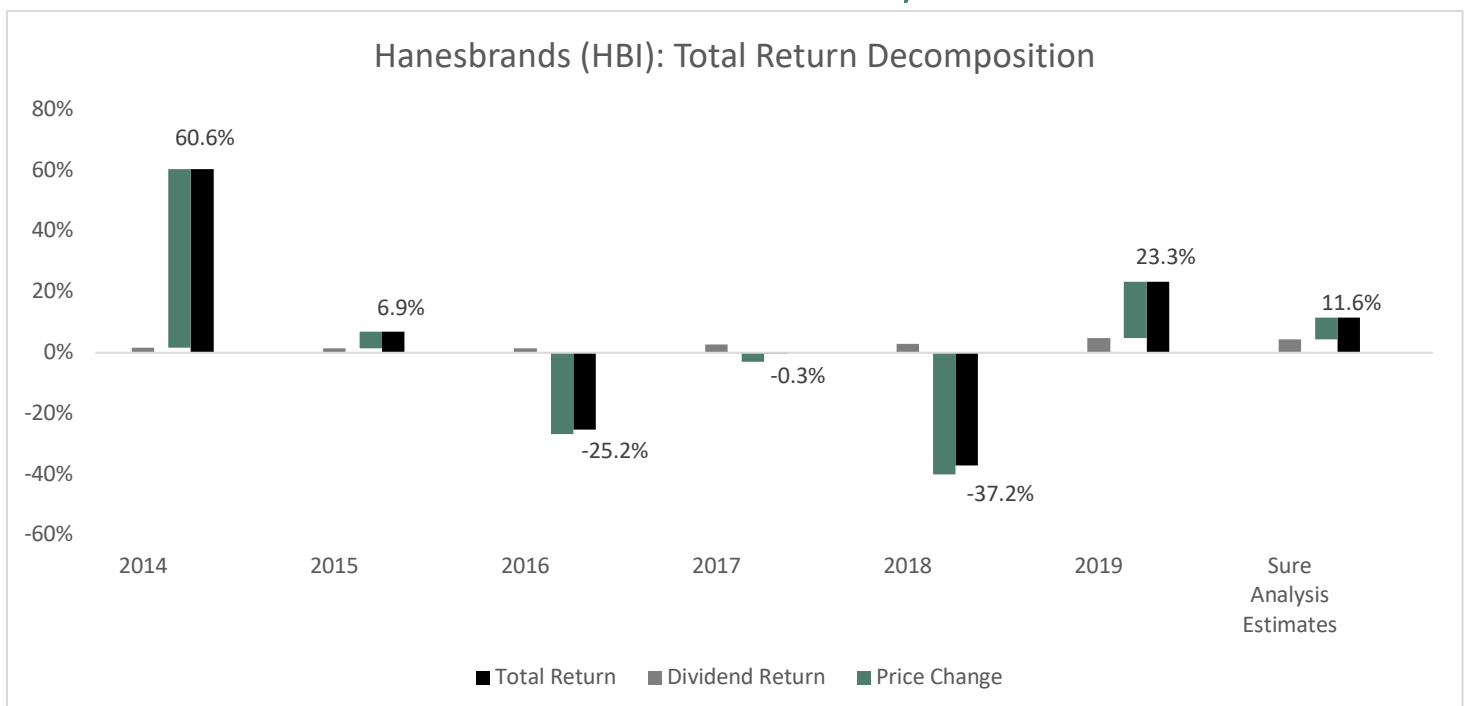
Due to its acquisitions, Hanesbrands has leveraged its balance sheet in recent years, with its debt/assets ratio rising from 69.9% in 2013 to 86.0% now. Its interest expense currently consumes 20% of its operating income. The company has paid the same dividend for 16 consecutive quarters. As the payout 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.

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 fairly resilient in the ongoing recession.

Final Thoughts & Recommendation

The disappointing results of Hanesbrands in the third quarter are a stern reminder of the volatile performance of the company. However, Hanesbrands was in turnaround mode before the pandemic and has become fairly resilient to the pandemic thanks to its recent transformation. Thanks to its cheap valuation, the stock could offer an 11.6% average annual return over the next five years. It is thus on the verge of earning a buy rating but we rate it as a hold, as we need an even cheaper valuation to compensate for the volatile business performance of the company.

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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