



Hanesbrands (HBI)

Updated February 11th, 2021 by Aristofanis Papadatos

Key Metrics

Current Price:	\$19	5 Year CAGR Estimate:	5.3%	Market Cap:	\$6.7 B
Fair Value Price:	\$16	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	2/18/2021
% Fair Value:	119%	5 Year Valuation Multiple Estimate:	-3.4%	Dividend Payment Date:	3/9/2021
Dividend Yield:	3.2%	5 Year Price Target	\$21	Years Of Dividend Growth:	0
Dividend Risk Score:	B	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 \$6.7 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 -30% while the index rallied 110%. 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 February, Hanesbrands reported (2/9/21) financial results for the fourth quarter of fiscal 2020. In the full year, revenue decreased -4% over the prior year but adjusted, currency-neutral revenue grew 2%. However, the company incurred increased manufacturing costs as well as selling, general and administrative costs. As a result, adjusted earnings-per-share fell -18%, from \$1.76 to \$1.45.

On the bright side, management provided guidance for 14% revenue growth in the first quarter vs. the prior year's quarter and expansion of the operating margin from 4.8% to 10.3%. It also expects earnings-per-share of \$0.24-\$0.27 in the first quarter. In addition, management announced that it completed its comprehensive business assessment and began implementing a promising growth plan. As a result, the stock jumped 25% on the day of its earnings release.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$0.67	\$0.66	\$0.98	\$1.42	\$1.66	\$1.85	\$1.93	\$1.71	\$1.76	\$1.45	\$1.60	\$2.14
DPS	---	---	\$0.15	\$0.30	\$0.40	\$0.44	\$0.60	\$0.60	\$0.60	\$0.60	\$0.60	\$0.65
Shares¹	390.1	393.1	397.8	400.8	391.7	378.7	360.1	364.7	365.6	350.8	340.0	330.0

Hanesbrands has grown its earnings-per-share at a 9.0% average annual rate over the last decade but it has failed to grow in the last four years. After four consecutive years of poor sales, the company managed to grow its sales in 2018-2019, but it has failed to grow its earnings-per-share due to the above-mentioned challenges facing the company. On the bright side, Hanesbrands now has a long-term growth plan, which includes growing the Champion brand globally, growing Innerwear sales with products that appeal to young consumers and improving online sales. 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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	10.0	11.5	13.8	16.2	18.6	14.3	11.4	10.9	9.1	9.1	11.9	10.0
Avg. Yld.	---	---	1.1%	1.3%	1.3%	1.7%	2.7%	3.2%	3.7%	4.6%	3.2%	3.0%

¹ In millions.

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Hanesbrands is currently trading at a price-to-earnings ratio of 11.9, which is lower than its 10-year average price-to-earnings ratio of 12.5. 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 -3.4% annualized drag due to the contraction of its valuation level over this period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	---	15.3%	21.1%	24.1%	23.8%	31.1%	35.1%	34.1%	41.4%	37.5%	30.2%

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.

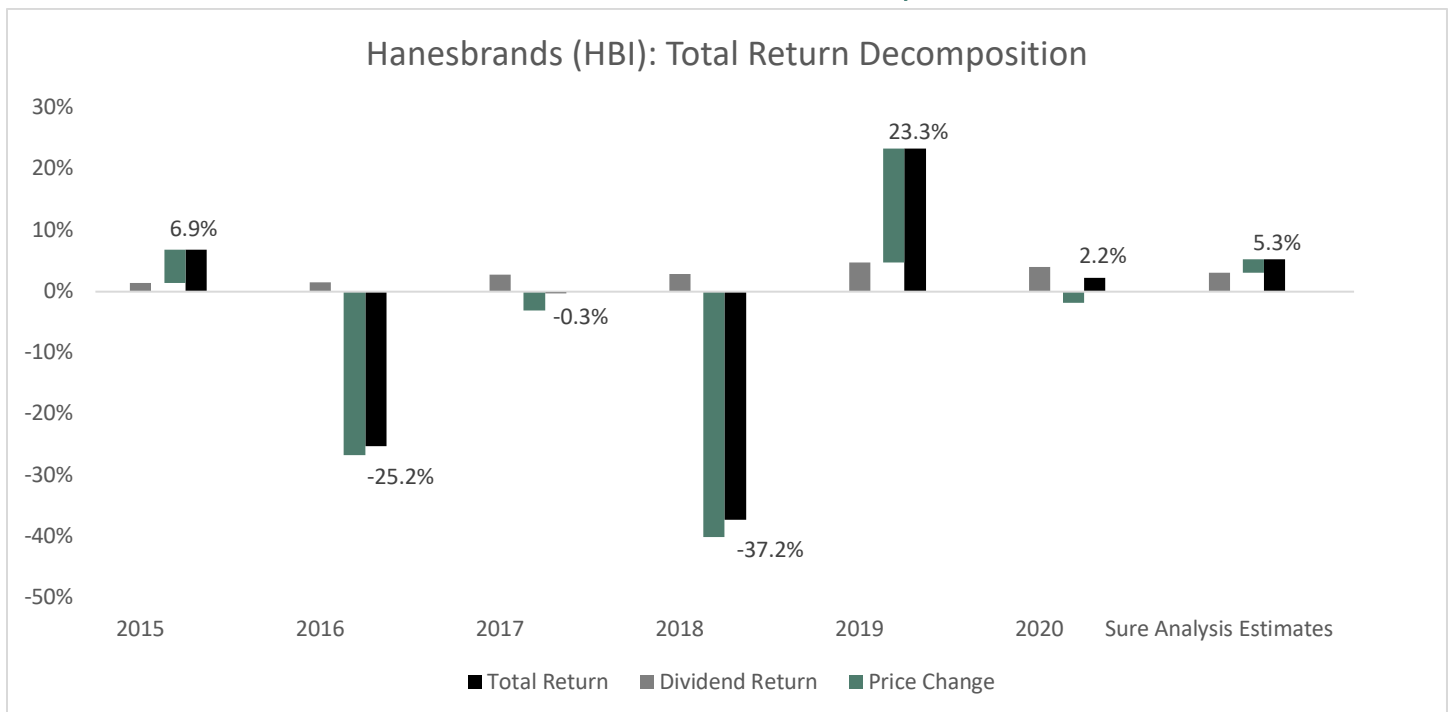
Due to its acquisitions, Hanesbrands has leveraged its balance sheet in recent years, with its debt/assets ratio rising from 69.9% in 2013 to 90.0% now. Its interest expense currently consumes 20% of its operating income. The company has paid the same dividend for 17 consecutive quarters. As the payout 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.

Final Thoughts & Recommendation

Hanesbrands is in turnaround mode but it has unreliable business performance while its stock has jumped to a 2-year high. As a result, the stock has become less attractive than it was in our previous report and could now offer just a 5.3% average annual return over the next five years. We thus rate it as a hold but only for investors who are comfortable with the volatile business performance of Hanesbrands.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	4,434	4,526	4,628	5,325	5,732	6,028	6,471	6,804	6,967	6,664
Gross Profit	1,493	1,420	1,612	1,904	2,136	2,276	2,491	2,657	2,719	1,848
Gross Margin	33.7%	31.4%	34.8%	35.8%	37.3%	37.8%	38.5%	39.0%	39.0%	27.7%
SG&A Exp.	1,046	980	1,097	1,340	1,541	1,486	1,718	1,789	1,830	1,842
D&A Exp.	91	93	91	98	104	103	122	132	121	120
Operating Profit	447	440	515	564	595	790	772	868	890	7
Operating Margin	10.1%	9.7%	11.1%	10.6%	10.4%	13.1%	11.9%	12.8%	12.8%	0.1%
Net Profit	267	165	330	405	429	539	62	553	601	(76)
Net Margin	6.0%	3.6%	7.1%	7.6%	7.5%	8.9%	1.0%	8.1%	8.6%	-1.1%
Free Cash Flow	83	513	548	444	128	522	569	557	702	395
Income Tax	42	31	65	60	45	34	473	94	79	(108)

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	4,035	3,632	4,090	5,208	5,598	6,930	6,895	7,256	7,354	7,699
Cash & Equivalents	35	43	116	240	319	460	422	433	329	909
Accounts Receivable	471	506	579	672	680	837	903	871	815	832
Inventories	1,608	1,253	1,283	1,537	1,815	1,841	1,875	2,054	1,906	1,491
Goodwill & Int. Ass.	603	553	1,004	1,414	1,535	2,384	2,570	2,797	2,757	2,834
Total Liabilities	3,354	2,745	2,859	3,821	4,322	5,707	6,209	6,286	6,117	6,885
Accounts Payable	452	404	466	621	673	762	868	1,030	959	949
Long-Term Debt	2,038	1,518	1,685	1,984	2,603	3,742	3,964	3,981	3,372	4,004
Shareholder's Equity	681	887	1,231	1,387	1,276	1,224	686	970	1,237	814
D/E Ratio	2.99	1.71	1.37	1.43	2.04	3.06	5.78	4.10	2.73	4.92

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	6.8%	4.3%	8.6%	8.7%	7.9%	8.6%	0.9%	7.8%	8.2%	-1.0%
Return on Equity	42.9%	21.0%	31.2%	30.9%	32.2%	43.2%	6.5%	66.8%	54.4%	-7.4%
ROIC	9.9%	6.4%	12.4%	12.9%	11.8%	12.2%	1.3%	11.5%	12.6%	-1.6%
Shares Out.	390.1	393.1	397.8	400.8	391.7	378.7	360.1	364.7	365.6	350.8
Revenue/Share	11.17	11.28	11.36	13.05	14.20	15.68	17.52	18.67	19.06	18.89
FCF/Share	0.21	1.28	1.34	1.09	0.32	1.36	1.54	1.53	1.92	1.12

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

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