



Hanesbrands (HBI)

Updated November 12th, 2021 by Aristofanis Papadatos

Key Metrics

| | | | | | |
|-----------------------------|------|--|------|----------------------------------|------------|
| Current Price: | \$18 | 5 Year CAGR Estimate: | 8.8% | Market Cap: | \$6.3 B |
| Fair Value Price: | \$18 | 5 Year Growth Estimate: | 6.0% | Ex-Dividend Date: | 11/8/2021 |
| % Fair Value: | 100% | 5 Year Valuation Multiple Estimate: | 0.2% | Dividend Payment Date: | 11/30/2021 |
| Dividend Yield: | 3.3% | 5 Year Price Target | \$24 | 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 \$6.3 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 -28% while the index rallied 114%. The company is trying to assimilate its past acquisitions while it is facing intense competition 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 (11/4/21) financial results for the third quarter of fiscal 2021. Revenue grew 6% over last year's quarter, primarily thanks to 33% growth in the global Champion brand and 12% growth in the U.S. innerwear business. The company benefited from strong consumer demand and favorable trends in the U.S., Europe and China, which more than offset the effect of lockdowns in Australia and Japan. Excluding the sales of COVID masks in last year's quarter, sales would have grown 18%. Hanesbrands grew its adjusted earnings-per-share 15%, from \$0.46 to \$0.53, and exceeded analysts' consensus by \$0.06.

Thanks to positive sales momentum, management significantly raised its guidance for the full year. It now expects adjusted earnings-per-share of \$1.79-\$1.84 (vs. previous guidance of \$1.68-\$1.76). Thanks to favorable business trends and improved guidance, we have raised our earnings-per-share forecast for the full year from \$1.74 to \$1.82.

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 | \$1.82 | \$2.44 |
| 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 | 352.0 | 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 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 | 9.9 | 10.0 |
| Avg. Yld. | --- | --- | 1.1% | 1.3% | 1.3% | 1.7% | 2.7% | 3.2% | 3.7% | 4.6% | 3.3% | 2.7% |

¹ In millions.

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Hanesbrands is currently trading at a price-to-earnings ratio of 9.9, 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 trades at our fair valuation level in five years, it will enjoy a marginal 0.2% annualized gain thanks to the expansion 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% | 33.0% | 26.5% |

Hanesbrands' well-known Champion brand gives the company a slight competitive advantage. However, the company is engaged in a highly competitive business, which does not allow it to command high margins or grow quickly.

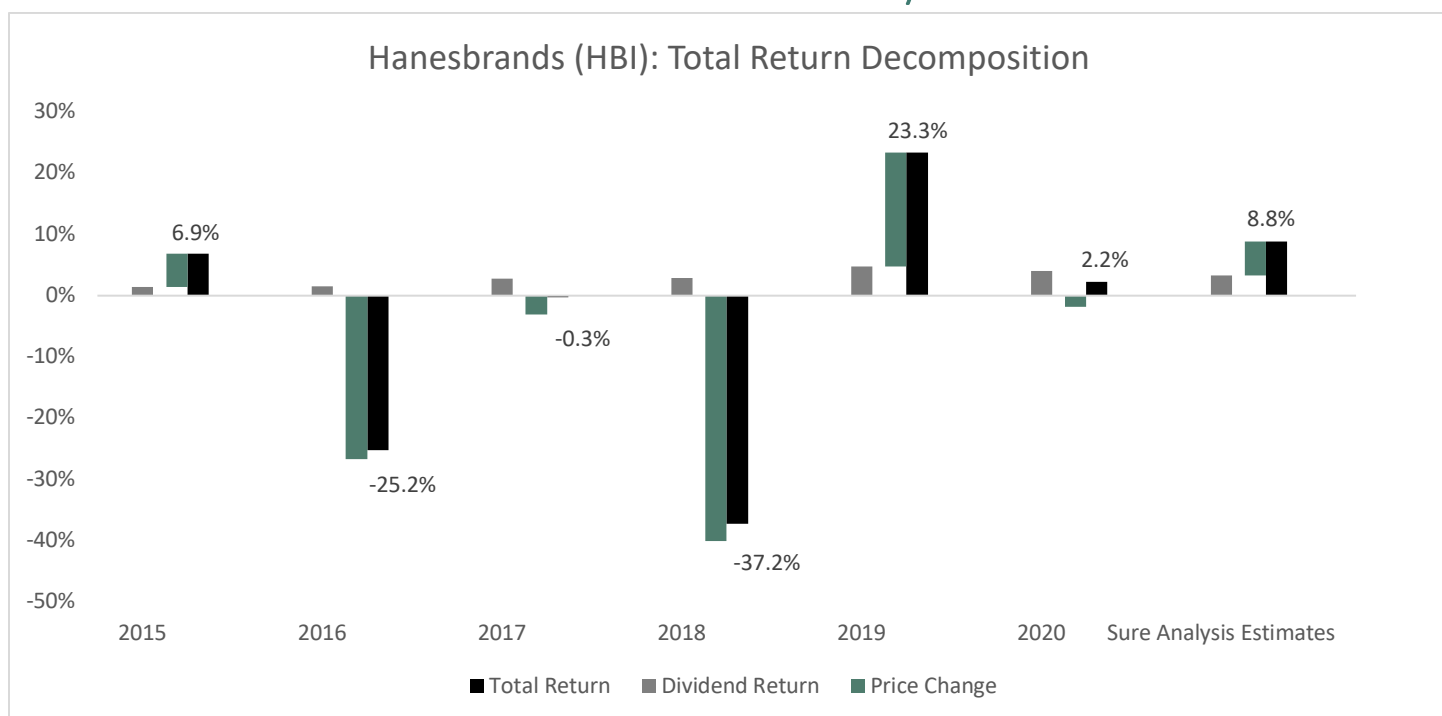
Due to its acquisitions, Hanesbrands has leveraged its balance sheet in recent years, with its debt/assets ratio rising from 70% in 2013 to 92% now. Its interest expense currently consumes 18% of its operating income. The company has paid the same dividend for 20 consecutive quarters. As the payout ratio 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 volatile and unreliable business performance. We expect the stock to offer an 8.8% average annual return over the next five years thanks to 6.0% earnings growth, its 3.3% dividend and a marginal 0.2% valuation gain. We rate the stock as a hold but only for investors who are comfortable with the volatile business performance. The stock may exceed our expectations, but we are cautious for now.

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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