



Hanesbrands (HBI)

Updated February 8th, 2022 by Aristofanis Papadatos

Key Metrics

Current Price:	\$16	5 Year CAGR Estimate:	11.4%	Market Cap:	\$5.5 B
Fair Value Price:	\$18	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	2/14/2022
% Fair Value:	88%	5 Year Valuation Multiple Estimate:	2.6%	Dividend Payment Date:	3/8/2022
Dividend Yield:	3.8%	5 Year Price Target	\$24	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 \$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 -26% while the index rallied 94%. 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 expense.

In early February, Hanesbrands reported (2/3/21) financial results for the fourth quarter of fiscal 2021. Revenue grew 4% over the prior year's quarter thanks to 10% growth in the global Champion brand and 3% growth in the U.S. innerwear business. The company benefited from strong consumer demand and favorable trends in the U.S., Europe, the Americas and China, which more than offset headwinds related to the pandemic in Australia and Japan. Excluding the sales of COVID masks in the prior year's quarter, sales would have grown 9%. Hanesbrands grew its adjusted earnings-per-share 5%, from \$0.42 to \$0.44, in line with the analysts' consensus.

Due to a deceleration in business momentum, Hanesbrands issued lackluster guidance for 2022. It expects 3%-4% revenue growth and adjusted earnings-per-share of \$1.64-\$1.81. We expect earnings at the upper end of the guidance, but we agree with the negative reaction of the market, as the absence of meaningful growth is certainly disappointing.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$0.66	\$0.98	\$1.42	\$1.66	\$1.85	\$1.93	\$1.71	\$1.76	\$1.45	\$1.83	\$1.82	\$2.44
DPS	---	\$0.15	\$0.30	\$0.40	\$0.44	\$0.60	\$0.60	\$0.60	\$0.60	\$0.60	\$0.60	\$0.65
Shares¹	393.1	397.8	400.8	391.7	378.7	360.1	364.7	365.6	350.8	352.3	345.0	320.0

Hanesbrands has grown its earnings-per-share at a 12.0% average annual rate over the last decade but it has failed to grow in the last five 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	11.5	13.8	16.2	18.6	14.3	11.4	10.9	9.1	9.1	10.0	8.8	10.0
Avg. Yld.	---	1.1%	1.3%	1.3%	1.7%	2.7%	3.2%	3.7%	4.6%	3.3%	3.8%	2.7%

¹ In millions.

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Hanesbrands is currently trading at a price-to-earnings ratio of 8.8, 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 2.6% annualized gain thanks to the expansion of its valuation level over this period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	15.3%	21.1%	24.1%	23.8%	31.1%	35.1%	34.1%	41.4%	32.8%	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.

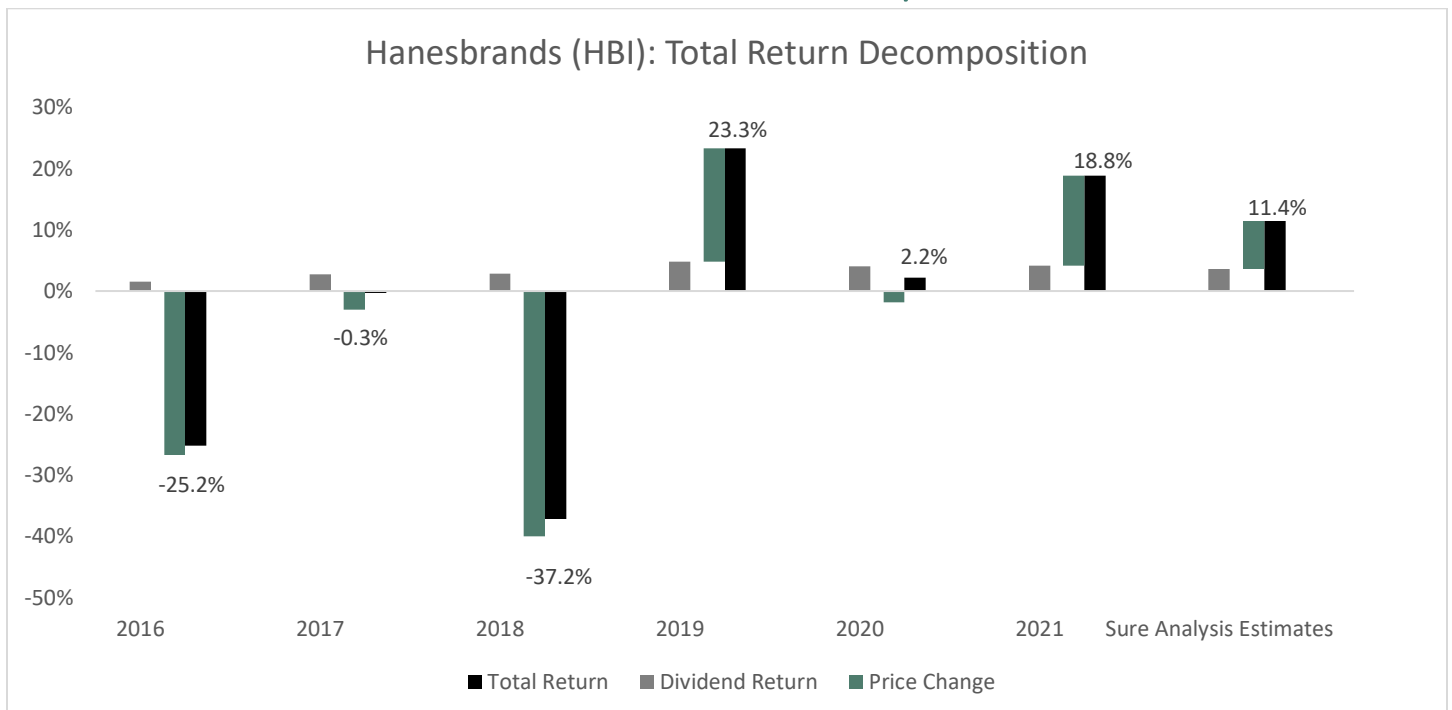
Due to its acquisitions, Hanesbrands has leveraged its balance sheet in recent years, with its debt/assets ratio rising from 70% in 2013 to 90% now. Its interest expense currently consumes 17% of its operating income. The company has paid the same dividend for 21 consecutive quarters. As the payout ratio 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. Nevertheless, we expect the stock to offer an 11.4% average annual return over the next five years thanks to 6.0% earnings growth, its 3.8% dividend and a 2.6% valuation gain. We rate the stock as a buy but only for investors who are comfortable with the volatile business performance.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	4,526	4,628	5,325	5,732	6,028	6,471	6,804	6,967	6,664	6,801
Gross Profit	1,420	1,612	1,904	2,136	2,276	2,491	2,657	2,719	1,848	2,652
Gross Margin	31.4%	34.8%	35.8%	37.3%	37.8%	38.5%	39.0%	39.0%	27.7%	39.0%
SG&A Exp.	980	1,097	1,340	1,541	1,486	1,718	1,789	1,830	1,842	1,854
D&A Exp.	93	91	98	104	103	122	132	121	120	114
Operating Profit	440	515	564	595	790	772	868	890	7	798
Operating Margin	9.7%	11.1%	10.6%	10.4%	13.1%	11.9%	12.8%	12.8%	0.1%	11.7%
Net Profit	165	330	405	429	539	62	553	601	(76)	77
Net Margin	3.6%	7.1%	7.6%	7.5%	8.9%	1.0%	8.1%	8.6%	-1.1%	1.1%
Free Cash Flow	513	548	444	128	522	569	557	702	395	554
Income Tax	31	65	60	45	34	473	94	79	(108)	60

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	3,632	4,090	5,208	5,598	6,930	6,895	7,256	7,354	7,699	7,071
Cash & Equivalents	43	116	240	319	460	422	433	329	909	536
Accounts Receivable	506	579	672	680	837	903	871	815	832	894
Inventories	1,253	1,283	1,537	1,815	1,841	1,875	2,054	1,906	1,491	1,584
Goodwill & Int. Ass.	553	1,004	1,414	1,535	2,384	2,570	2,797	2,757	2,834	2,353
Total Liabilities	2,745	2,859	3,821	4,322	5,707	6,209	6,286	6,117	6,885	6,369
Accounts Payable	404	466	621	673	762	868	1,030	959	949	1,215
Long-Term Debt	1,518	1,685	1,984	2,603	3,742	3,964	3,981	3,372	4,004	3,351
Shareholder's Equity	887	1,231	1,387	1,276	1,224	686	970	1,237	814	702
LTD/E Ratio	1.71	1.37	1.43	2.04	3.06	5.78	4.10	2.73	4.92	4.77

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	4.3%	8.6%	8.7%	7.9%	8.6%	0.9%	7.8%	8.2%	-1.0%	1.0%
Return on Equity	21.0%	31.2%	30.9%	32.2%	43.2%	6.5%	66.8%	54.4%	-7.4%	10.2%
ROIC	6.4%	12.4%	12.9%	11.8%	12.2%	1.3%	11.5%	12.6%	-1.6%	1.7%
Shares Out.	393.1	397.8	400.8	391.7	378.7	360.1	364.7	365.6	350.8	352.3
Revenue/Share	11.28	11.36	13.05	14.20	15.68	17.52	18.67	19.06	18.89	19.32
FCF/Share	1.28	1.34	1.09	0.32	1.36	1.54	1.53	1.92	1.12	1.57

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

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