



Hanesbrands (HBI)

Updated February 8th, 2023 by Aristofanis Papadatos

Key Metrics

Current Price:	\$6.00	5 Year CAGR Estimate:	12.9%	Market Cap:	\$2.1 B
Fair Value Price:	\$3.60	5 Year Growth Estimate:	25.0%	Ex-Dividend Date:	N/A
% Fair Value:	167%	5 Year Valuation Multiple Estimate:	-9.7%	Dividend Payment Date:	N/A
Dividend Yield:	0.0%	5 Year Price Target	\$11	Years Of Dividend Growth:	0
Dividend Risk Score:	N/A	Retirement Suitability Score:	N/A	Rating:	Buy

Overview & Current Events

Hanesbrands is a leading marketer of everyday basic innerwear and activewear apparel. It has a market capitalization of \$2.1 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 eight years but has dramatically underperformed the S&P 500 in the last five years, losing -69% while the index rallied 61%. 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 (2/2/23) results for the fourth quarter of fiscal 2022. Sales fell -16% over last year's quarter due to a strong dollar and soft consumer spending amid high inflation. Global Champion brand and U.S. innerwear incurred a decrease in sales of -18% and -19%, respectively. The company was also hurt by high cost inflation and deep discounts amid high inventories. As a result, its earnings-per-share plunged -84%, from \$0.44 to \$0.07. This was the worst quarter of Hanesbrands in the last several years.

Due to the above headwinds, Hanesbrands provided markedly poor guidance for 2023, expecting a -2% decline in sales and adjusted earnings-per-share of \$0.31-\$0.42, the lowest level in more than a decade. The stock plunged -28% on the news. Management also eliminated the dividend in order to reduce debt and enhance financial flexibility. We expect 10-year low earnings-per-share of \$0.36 this year but we expect the company to recover in the upcoming years.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$0.98	\$1.42	\$1.66	\$1.85	\$1.93	\$1.71	\$1.76	\$1.45	\$1.83	\$0.98	\$0.36	\$1.10
DPS	\$0.15	\$0.30	\$0.40	\$0.44	\$0.60	\$0.60	\$0.60	\$0.60	\$0.60	\$0.60	\$0.00	\$0.00
Shares¹	397.8	400.8	391.7	378.7	360.1	364.7	365.6	350.8	352.3	350.0	350.0	330.0

Hanesbrands has failed to grow its earnings-per-share over the last decade due to the impact of inflation on its business last year. 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 the company to grow its earnings-per-share at a 25.0% average annual rate over the next five years off this year's 10-year low base.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	13.8	16.2	18.6	14.3	11.4	10.9	9.1	9.1	10.0	11.4	16.7	10.0
Avg. Yld.	1.1%	1.3%	1.3%	1.7%	2.7%	3.2%	3.7%	4.6%	3.3%	5.4%	0.0%	0.0%

¹ In millions.

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Due to the depressed earnings expected this year, Hanesbrands is trading at a forward price-to-earnings ratio of 16.7, which is higher 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 incur a -9.7% annualized drag due to the contraction of its valuation level over this period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	15.3%	21.1%	24.1%	23.8%	31.1%	35.1%	34.1%	41.4%	32.8%	61.2%	0.0%	0.0%

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.

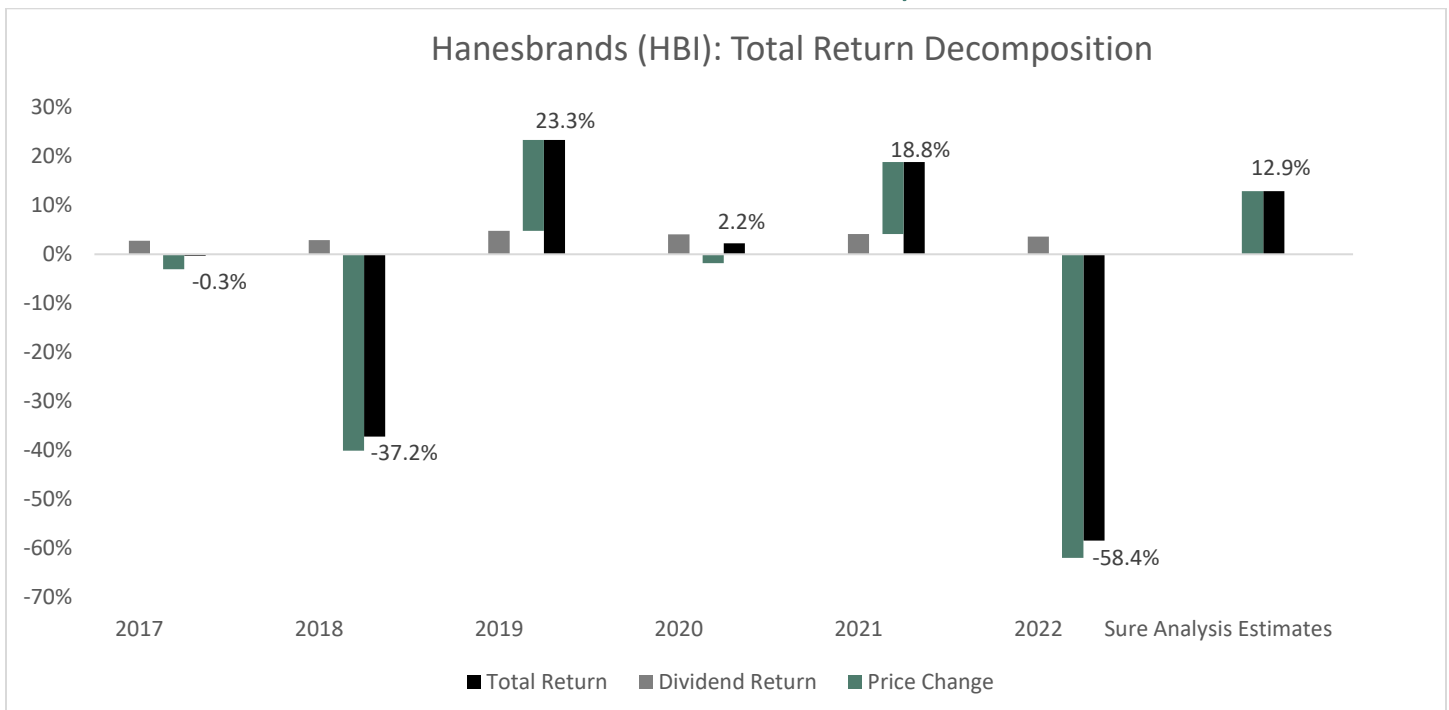
Due to its acquisitions, Hanesbrands has leveraged its balance sheet in recent years, with its debt/assets ratio rising from 70% in 2013 to 94% now. Its interest expense currently consumes 27% of its operating income. The company paid the same dividend for 24 consecutive quarters but it recently eliminated its dividend due to the strong headwinds facing its business.

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. It is also facing strong headwinds due to the impact of inflation on its costs and on consumer spending and thus it has plunged to a 10-year low. We expect the stock to offer a 12.9% average annual return over the next five years thanks to 25.0% earnings growth, partly offset by a -9.7% valuation drag. We rate the stock as a buy but only for investors who are comfortable with the volatile business performance and can wait patiently for inflation to subside.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	4,628	5,325	5,732	6,028	6,471	6,804	6,967	6,664	6,801	6,234
Gross Profit	1,612	1,904	2,136	2,276	2,491	2,657	2,719	1,848	2,652	2,221
Gross Margin	34.8%	35.8%	37.3%	37.8%	38.5%	39.0%	39.0%	27.7%	39.0%	35.6%
SG&A Exp.	1,097	1,340	1,541	1,486	1,718	1,789	1,830	1,842	1,854	1,702
D&A Exp.	91	98	104	103	122	132	121	120	114	106
Operating Profit	515	564	595	790	772	868	890	7	798	520
Operating Margin	11.1%	10.6%	10.4%	13.1%	11.9%	12.8%	12.8%	0.1%	11.7%	8.3%
Net Profit	330	405	429	539	62	553	601	(76)	77	-127
Net Margin	7.1%	7.6%	7.5%	8.9%	1.0%	8.1%	8.6%	-1.1%	1.1%	-2.0%
Free Cash Flow	548	444	128	522	569	557	702	395	554	-574
Income Tax	65	60	45	34	473	94	79	(108)	60	484

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	4,090	5,208	5,598	6,930	6,895	7,256	7,354	7,699	7,071	6,504
Cash & Equivalents	116	240	319	460	422	433	329	909	536	238
Accounts Receivable	579	672	680	837	903	871	815	832	894	721
Inventories	1,283	1,537	1,815	1,841	1,875	2,054	1,906	1,491	1,584	1,980
Goodwill & Int. Ass.	1,004	1,414	1,535	2,384	2,570	2,797	2,757	2,834	2,353	2,365
Total Liabilities	2,859	3,821	4,322	5,707	6,209	6,286	6,117	6,885	6,369	6,106
Accounts Payable	466	621	673	762	868	1,030	959	949	1,215	917
Long-Term Debt	1,685	1,984	2,603	3,742	3,964	3,981	3,372	4,004	3,351	3,859
Shareholder's Equity	1,231	1,387	1,276	1,224	686	970	1,237	814	702	398
LTD/E Ratio	1.37	1.43	2.04	3.06	5.78	4.10	2.73	4.92	4.77	9.69

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	8.6%	8.7%	7.9%	8.6%	0.9%	7.8%	8.2%	-1.0%	1.0%	-1.9%
Return on Equity	31.2%	30.9%	32.2%	43.2%	6.5%	66.8%	54.4%	-7.4%	10.2%	-23.1%
ROIC	12.4%	12.9%	11.8%	12.2%	1.3%	11.5%	12.6%	-1.6%	1.7%	-3.1%
Shares Out.	397.8	400.8	391.7	378.7	360.1	364.7	365.6	350.8	352.3	350.0
Revenue/Share	11.36	13.05	14.20	15.68	17.52	18.67	19.06	18.89	19.32	17.81
FCF/Share	1.34	1.09	0.32	1.36	1.54	1.53	1.92	1.12	1.57	-1.64

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

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