

Gildan Activewear – TSX:GIL

Hold Recommendation

Last: \$43.64

Market Cap. 8.6B CAD

April 27th 2021

Analyst: Andre Bodo

Canoe[®]
FINANCIAL

Summary

Gildan Activewear Inc is an apparel manufacturing company which has been restructuring since 2018 in alignment with their 'Back to Basics' plan.

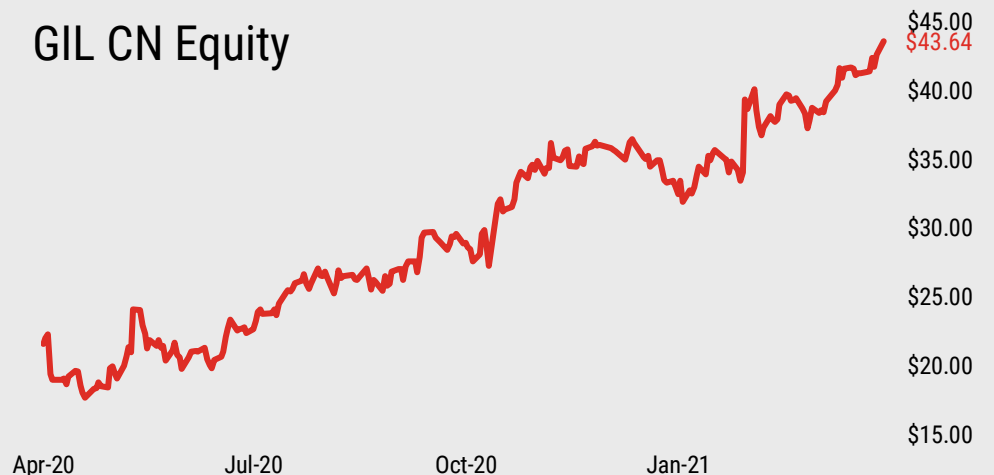
As part of this plan Gildan is targeting improved margins through increasing operational efficiencies. This is an essential move if Gildan is to remain competitive in their cost-driven industry of operation.

Possible expansion of production capacity, beneficial tailwinds and higher margins on the horizon provide an attractive reason to hold a position in Gildan.

Resumption of their share repurchasing plan and re-instatement of their quarterly dividend will benefit the stock, drawing in new investors searching for stable income.

**I recommend that Canoe Financial holds the current position:
0.02% in EIT-U @ approx. \$35.59 (+22%)
to capitalize on upside optionality at a favorable risk level.**

Ticker	GIL CN Equity
Sector	Consumer Discretionary
Sub-Industry	Textiles, Apparel & Luxury Goods
Proforma Market Capitalization	8.6B
Proforma Enterprise Value	9.2B
Last Price	43.64
52-Week L - H	16.91 – 43.64
Dividend Yield	N.A.
Beta	1.72 (vs SPTSX Index)



Business Analysis - Segments

Gildan is a vertically integrated apparel manufacturer focusing in two product segments

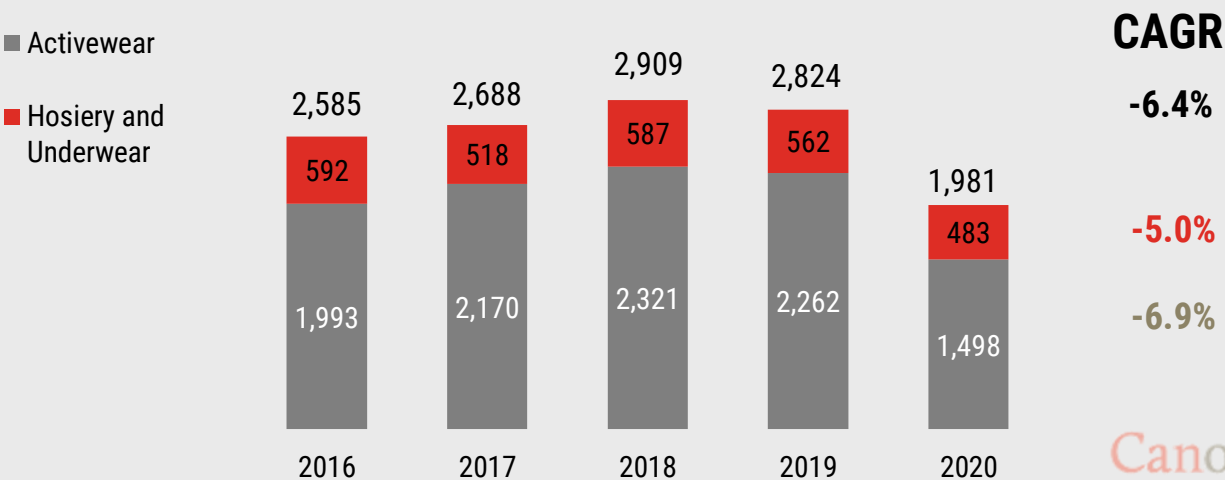
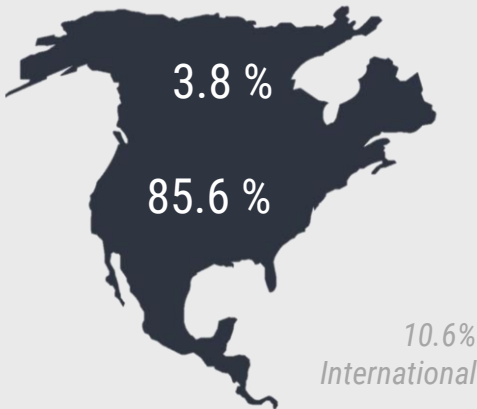
Hosiery and Underwear (24.4%)



Activewear (75.6%)



Revenue by Geography



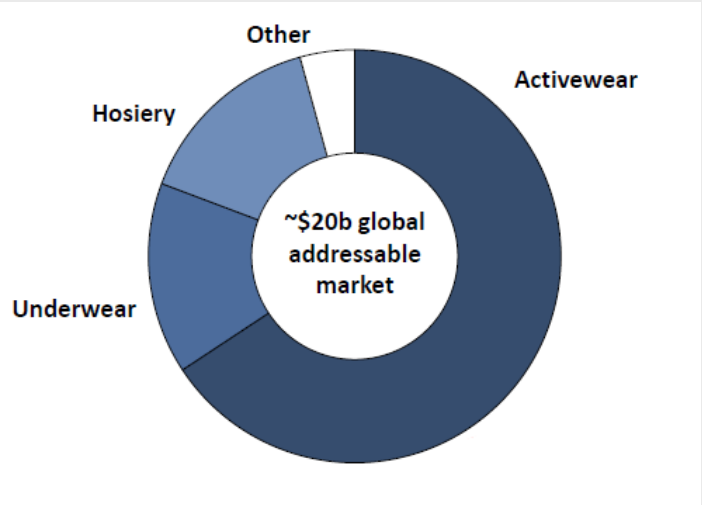
Sources: Gildan Website, Bloomberg, Gildan 2020 10k

Business Analysis - Markets

Imprintables (~66% of 2017 sales)



Gildan has ~12% share of Global Imprintable TAM



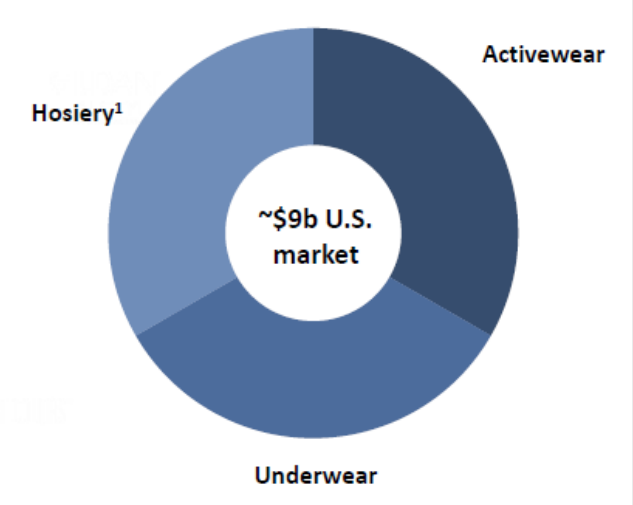
'Brandwear' (~34%)



[American Apparel 'Branded' Dog Hoodie](#)

Available online through Amazon

Retail (US) TAM Estimate for Gildan

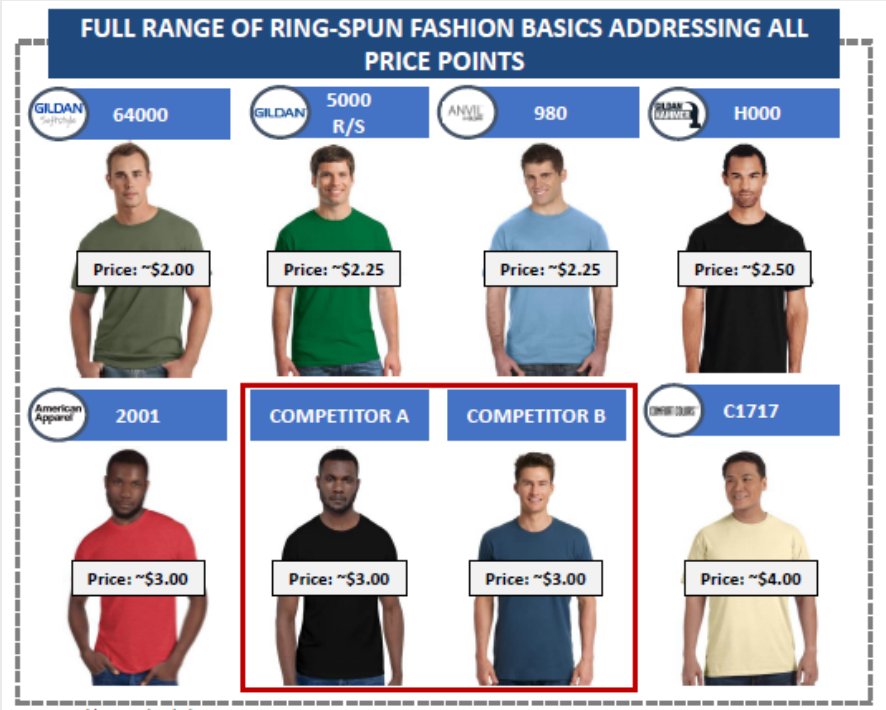


Sources: Gildan Website, 2019 Investor Presentation

Business Analysis - Competition

Competition is based on product availability, price, quality, fit and comfort

Gildan remains competitive by reducing prices through vertical integration, while offering a high quality product via manufacturing control.



Yarn Spinning

- State of art

MUST HAVE

Large Scale

- Duty favorable geographies
- Cheap labor
- Hubs

LOW COST

Corporate & Social Responsibility

- Control & Oversight

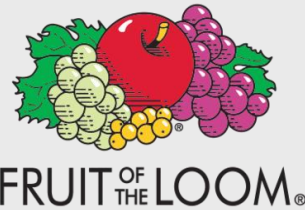
QUALITY

People

- Local managers

EFFICIENCY

Competitor Firms



Management & Board



Glenn J. Chamandy
CEO & Co-Founder
Director
1.70%



Rhodri J. Harries
Chief Financial Officer
CFO Rio Tinto Alcan 2014 – 2015
Finance roles at GM before
0.06%



Benito Masi
President Manufacturing
Join Gildan 1986
Manufacturing roles since joining
0.09%



Chuck J. Ward
President Sales & Distribution
Join 2011, CFO of GoldToe
0.02%



Donald C. Berg
Chairman
President DCB Advisory Services
Director, Meredith Corporation



Maryse Bertrand
Chair: CSR Committee
Director, National Bank Canada
Director, Metro



Shirley E. Cunningham
Chair: Compensation & HR
Director, Kemira Oyj (Chemicals)
Was CIO of Monsanto



Russell Goodman 0.05%
Chair: Audit & Finance
Director, Metro
Director, Northland Power



Luc Jobin
Chair: Audit & Finance
Director, British American Tobacco
Director, Hydro-Quebec
Was CEO of CNR

Short Term Compensation (1yr) 10% Typ. Wt.

- Revenue
- Diluted EPS
- Individual Strategic Objectives

Long Term Compensation (3yr) 80% Typ. Wt.

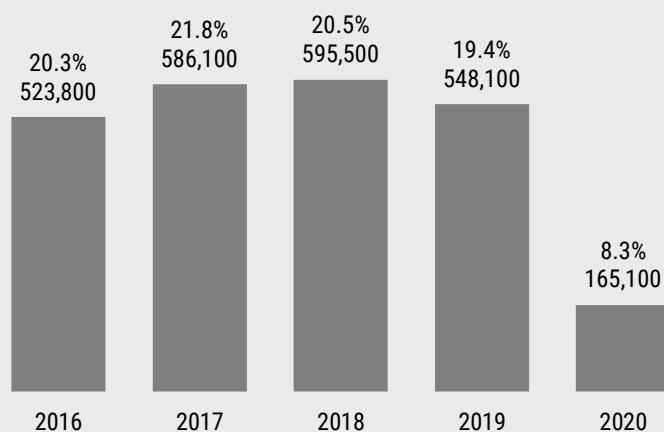
- RONA, Revenue, Adj. Diluted EPS
- Strategic Targets
- Share Price

INSIDER
2.0%

INSTITUTIONAL
112.0%

Financial Analysis – Historical Performance

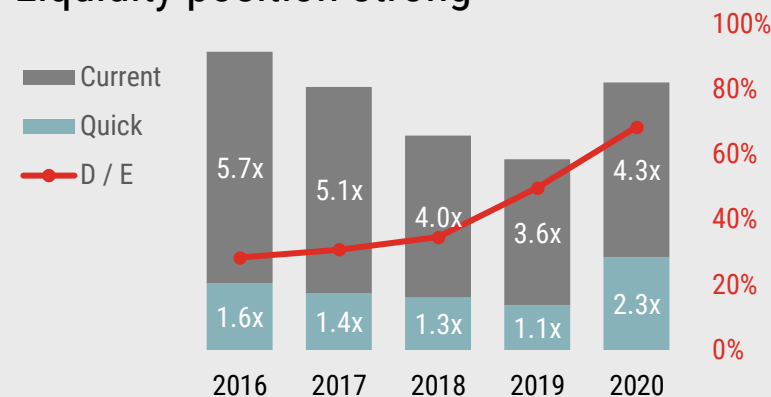
Consistent Adj. EBITDA margins stable over last 4 years, around 20% (excl. COVID-19)



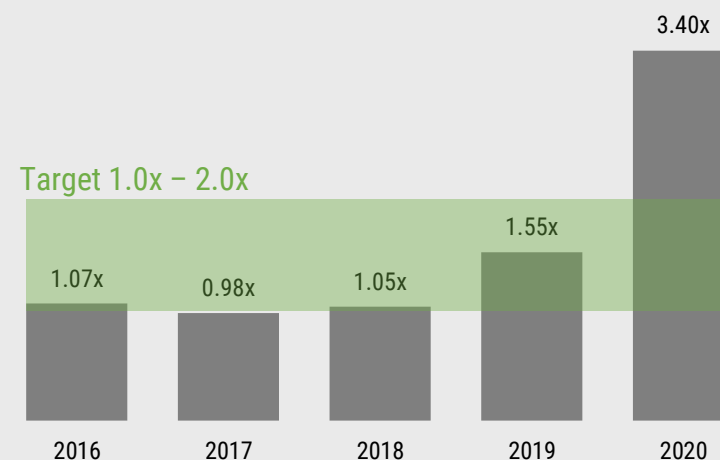
Adj. EBITDA (margins shown in %)

ROIC average (14%) remained stable and higher than WACC average (7%) over last 4 years (excl. COVID-19)

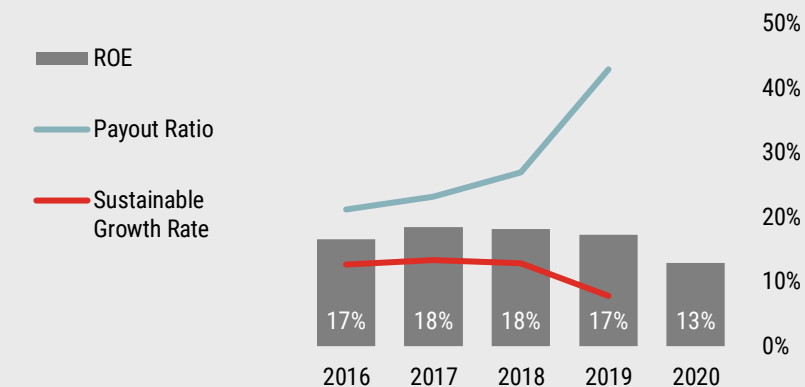
Liquidity position strong



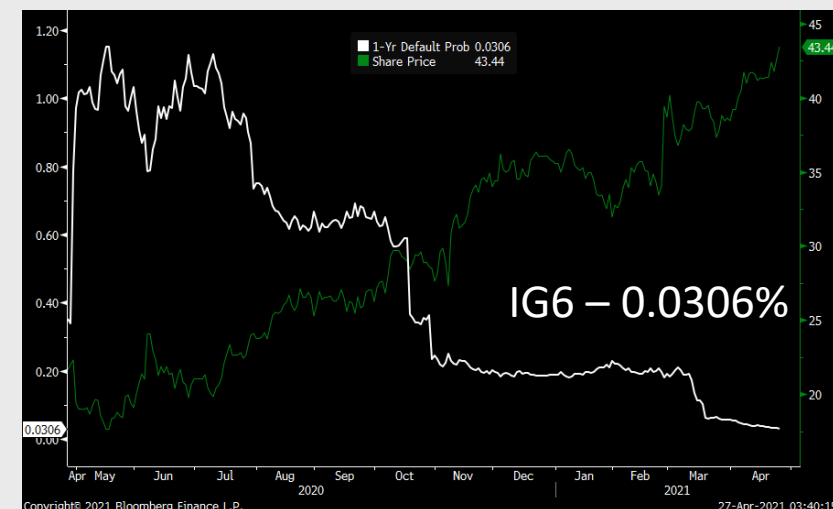
Net Debt / Adj. EBITDA
Outside of Target



Dividends & Growth



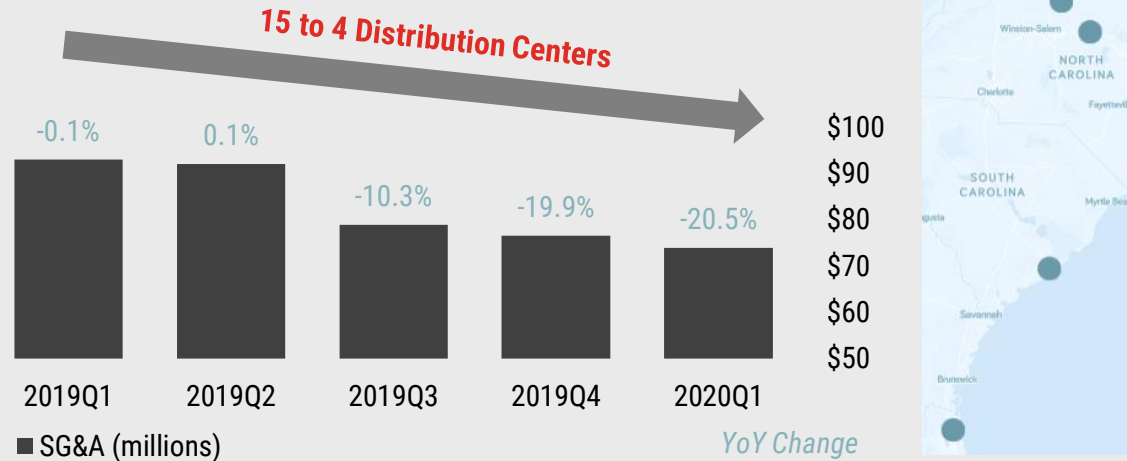
Investment Grade PD



Parsimonious Restructuring

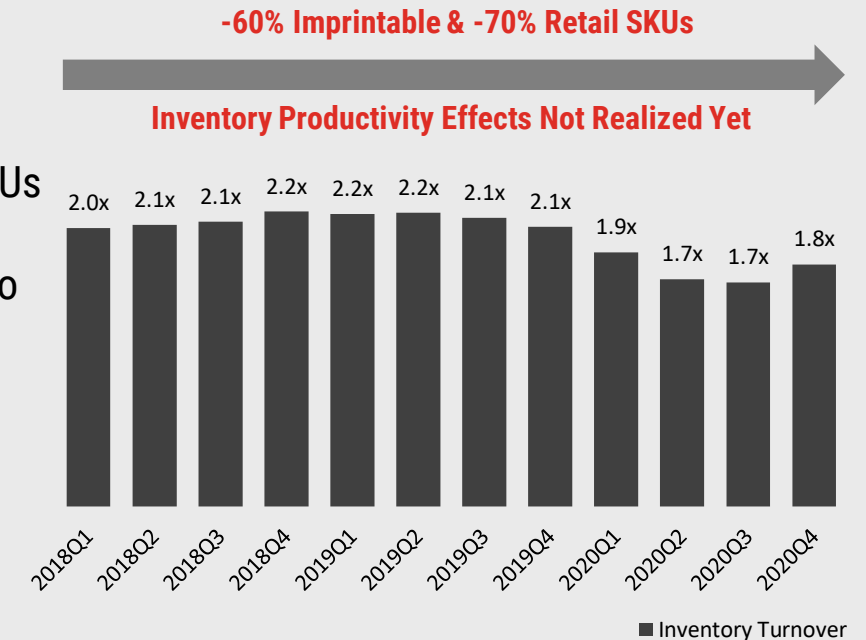
'Back to Basics'

1. Reduce complexity and lower SG&A



2. Simplify product offering & drive organic growth

Effects of reducing the number of SKUs not fully realized due to COVID-19



Inclusion in a Major ESG Index

Effective as of 23 November 2020

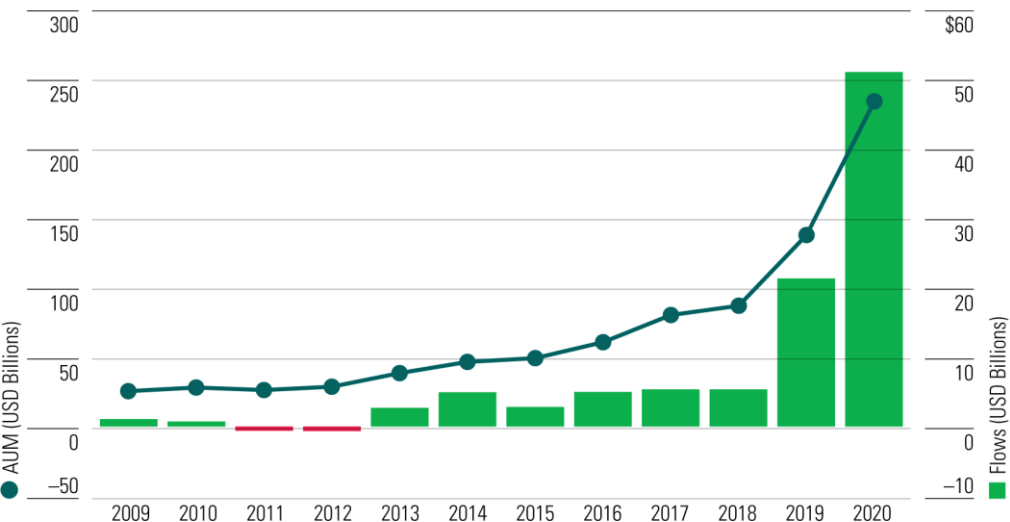
Dow Jones Sustainability North America Index

Company	Country	Industry Group
Waste Management, Inc.	United States	Commercial & Professional Services
Gildan Activewear Inc.	Canada	Consumer Durables & Apparel
Whirlpool Corporation	United States	Consumer Durables & Apparel
Hilton Worldwide Holdings Inc.	United States	Consumer Services

8th Year in a row for inclusion.

Currently Gildan ranks in the 91st percentile of S&P Global ESG scoring and holds a 73rd percentile rank from Sustainalytics

Sustainable Funds Annual Flows and Assets



Source: Morningstar. Data as of 12/31/2020.

Includes Sustainable Funds as defined in Sustainable Funds U.S. Landscape Report, Feb. 2020.

Includes funds that have been liquidated; does not include funds of funds.

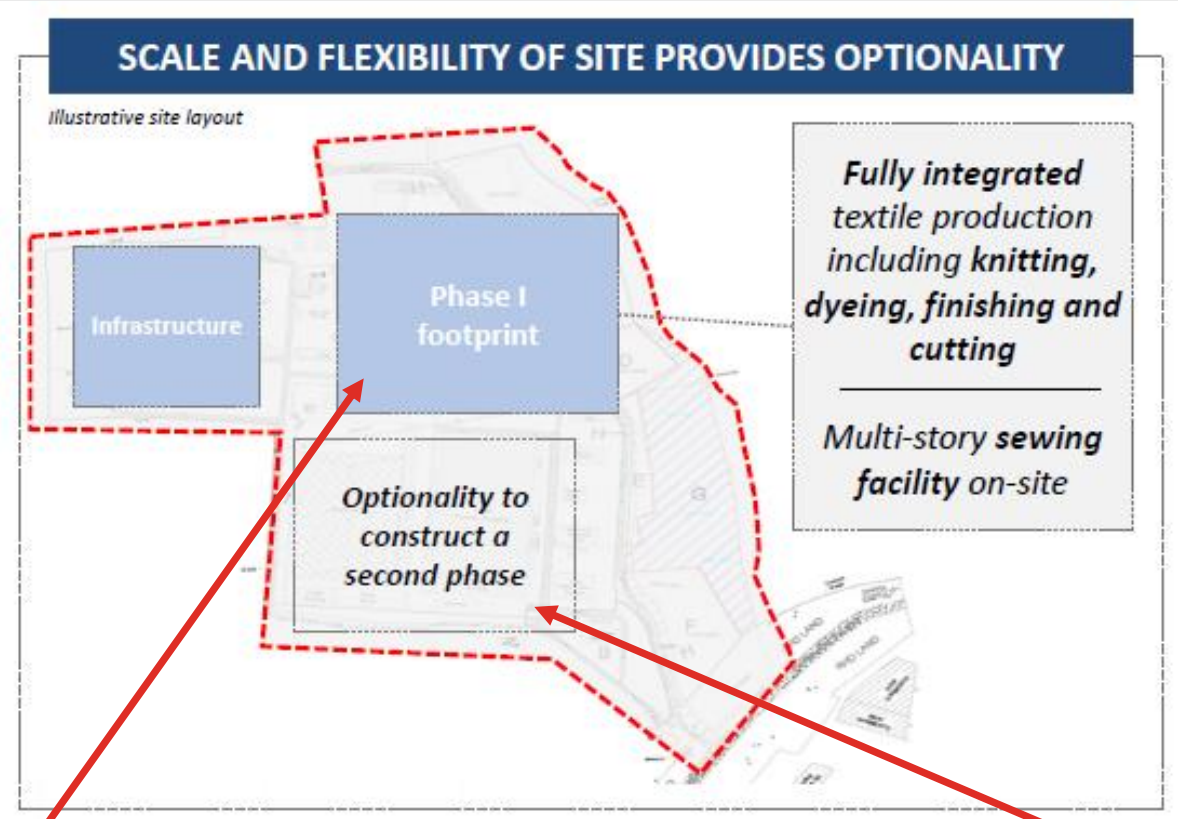
Funds have been flowing into ESG investments.
2020: \$51 Billion ~ 2.4x Increase over 2019

~77% of professional fund selectors and 75% of institutional investors considered ESG factors an integral part of sound investing.

~53% institutional investors agreed that companies with better ESG track records generate better investment returns.

Optionality: Expansion & Capital Distributions

3. Reduce manufacturing costs



Est. to support sales in 2023
+ 500M USD sales capacity

Same size as Phase I
+ 500M USD sales capacity

Minimum Wage

Bangladesh

\$95.73 USD/Month
8100 BDT/Month

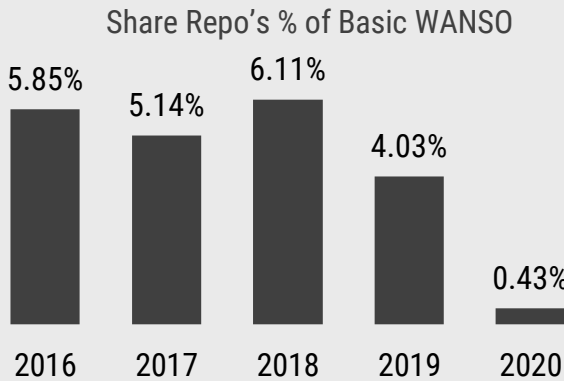
Honduras

\$515.78 USD / Month
12,357 HNL/Month

Capital Distributions

Net Debt / Adj. EBITDA < 2.0x Requirement

- Not de-levering; growing instead
- 2021 Q2 drops 2020 Q2 EBITDA from ratio

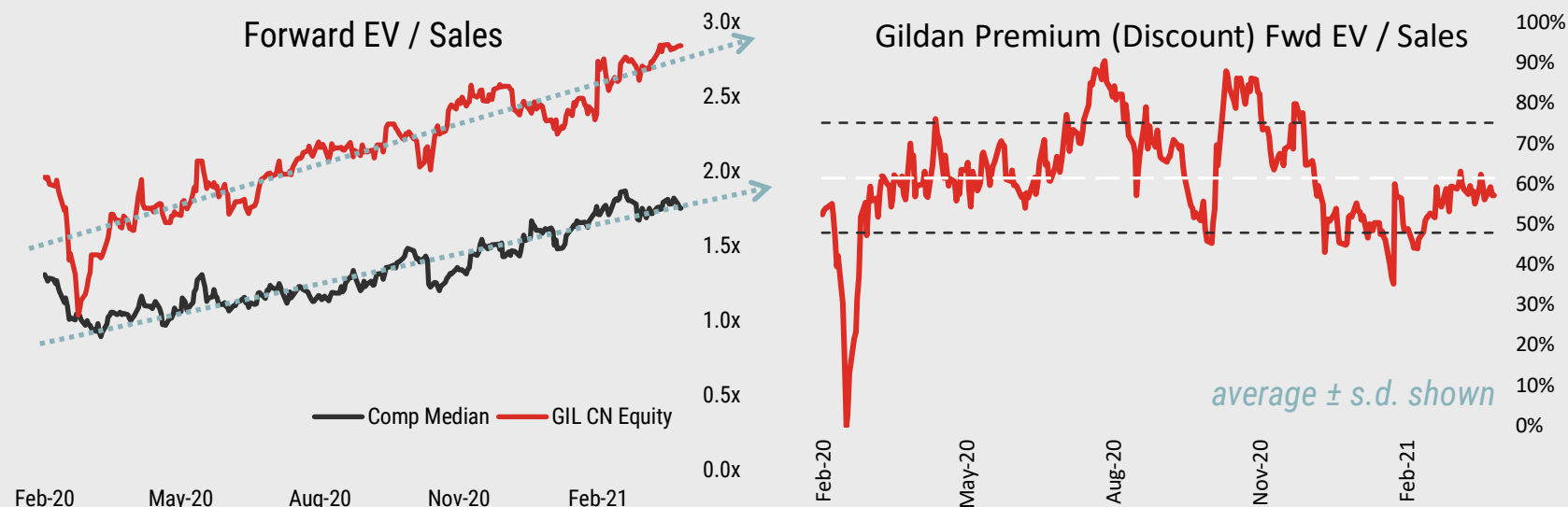


"We remain committed to returning capital to shareholders through our dividend and share repurchase programs over the long term and while we are currently well positioned from a liquidity perspective before resuming capital return to shareholders."

- Rhodri J. Harries, CFO

Valuation

Comparable Public Companies



	EV / EBITDA		EV / Sales		P / FCF	
	CY1	CY2	CY1	CY2	CY1	CY2
Average	13.2	11.4	1.9	1.8	1.9	1.8
Median	10.9	9.8	1.6	1.6	1.6	1.6
GIL CN Equity	13.5	11.8	2.6	2.4	2.6	2.4

		Forward EV / Sales					
		2.8x	2.9x	3.0x	3.2x	3.3x	
Sales	\$2,361	-7%	-3%	1%	6%	12%	
	\$2,485	-1%	3%	7%	13%	19%	
	\$2,616	5%	9%	13%	19%	25%	
	\$2,747	11%	15%	19%	26%	32%	
	\$2,884	17%	21%	26%	33%	39%	

Discounted Cash Flow – Base Case

	2021E	2022E	2023E	2024E	2025E	Terminal	
Revenue	32.0%	6.0%	19.5%	9.8%	6.0%	2.0%	-
Gross Margin	24%	27%	30%	30%	30%		-
SG&A / Sales	13%	13%	12%	12%	12%		-
CAPEX / Sales	4.0%	3.5%	3.5%	3.5%	3.5%		-
Share Repos	0	349,014	349,014	349,014	349,014		-
Payout Ratio	0%	23%	28%	34%	40%		-
WACC	8.3%	8.5%	8.8%	9.0%	9.3%	9.8%	-

CAGR: 10.2% (2021-25) vs 6% (2014-18)
 2023 Bangladesh online, 75% cap
 SG&A Target < 12%
 CAPEX / Sales Guidance 4%
 Repos 5% (Typ. NCIB Agreement)
 Dividends '16 Payout Ratio, 20% y/y
 ERP: Damodaran
 Debt: Most expensive loan

		Terminal Growth Rate				
		1.0%	1.5%	2.0%	2.5%	3.0%
WACC	7.3%	-18%	-13%	-8%	-3%	2%
	7.8%	-19%	-14%	-9%	-4%	2%
	8.3%	-20%	-15%	-10%	-5%	1%
	8.8%	-21%	-16%	-11%	-5%	0%
	9.3%	-22%	-17%	-12%	-6%	-1%

Blended Approach Risk/Reward: -16% to +26%

Catalysts

C1. Reinstatement of dividend and/or repurchase agreements announced.

C2. Announcement of construction commencing on second Bangladesh expansion

Risks

R1. Third party sewing contractors



R2. Major shareholders exit position quickly

Jarislowsky Fraser 9.7%

Pzena Investment Management 7.5%

Caisse de Depot 5.9%

R3. Failure to resume dividend payments

Indiscriminate selling from income mandates

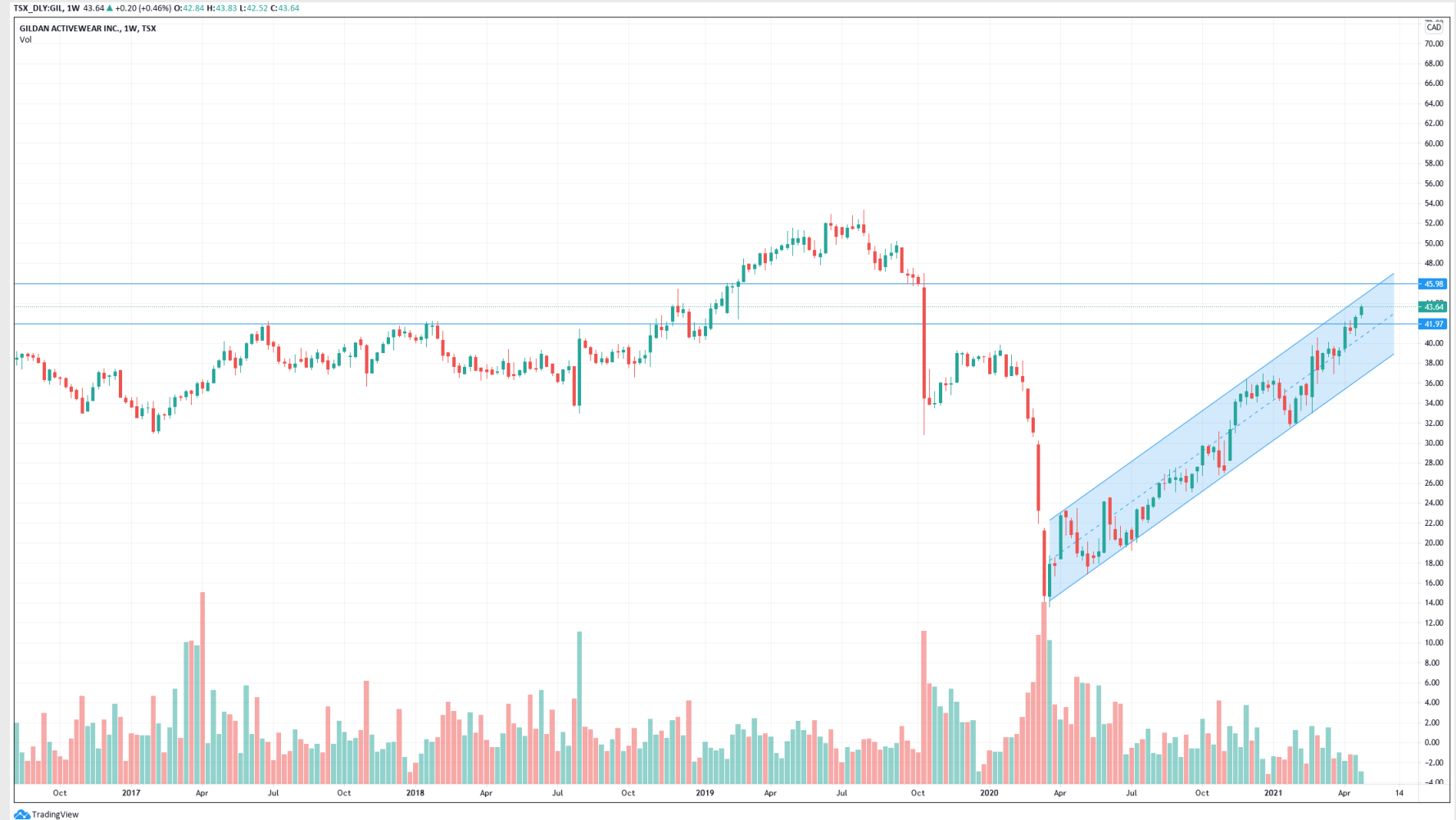
R4. Continued failure to meet 'Back-to-Basics' margin goals.

Recommendation

Valuation presents a favorable risk-reward profile with an upside at \$54.98 (+26%)

Consensus estimates are slightly lower, averaging \$42.45 (\$24.85 to \$47.47)

I recommend that Canoe Financials holds the position in GIL



Appendix – Comparable Public Companies

Comparable Public Companies (millions of USD)			EV / EBITDA		EV / Sales		P / FCF		Sales / CAPEX		LTM Ratios			Beta
Ticker	Name	Mkt Cap	CY1	CY2	CY1	CY2	CY1	CY2	CY1	CY2	SG&A / Sales	ROE	GM	
HBI US Equity	Hanesbrands Inc	7,465	7.3	6.7	1.1	1.1	1.1	1.1	-72.7	-70.2	28%	-7%	28%	1.88
OXM US Equity	Oxford Industries Inc	1,558	14.7	nmf	1.6	nmf	1.6	nmf	-32.1	nmf	66%	-20%	55%	2.03
COLM US Equity	Columbia Sportswear Co	7,570	16.0	16.8	2.5	2.3	2.5	2.3	-81.7	-32.1	44%	6%	49%	0.93
UAA US Equity	Under Armour Inc	10,984	30.9	24.3	2.2	2.1	2.2	2.1	-38.0	-39.9	49%	-29%	48%	1.53
RL US Equity	Ralph Lauren Corp	9,499	10.9	9.8	1.7	1.6	1.7	1.6	-27.4	-26.8	62%	-10%	61%	1.77
CPRI US Equity	Capri Holdings Ltd	8,332	8.6	8.1	1.7	1.5	1.7	1.5	-30.3	-34.0	50%	-17%	61%	3.01
GOOS CN Equity	Canada Goose Holdings Inc	4,685	17.8	13.7	5.2	4.5	5.2	4.5	-20.5	-18.8	42%	13%	61%	1.54
PVH US Equity	PVH Corp	7,935	8.0	7.2	0.9	0.8	0.9	0.8	-28.2	-29.2	56%	-22%	53%	2.58
KTB US Equity	Kontoor Brands Inc	3,856	10.9	10.1	1.6	1.6	1.6	1.6	-45.9	-44.4	35%	88%	41%	1.61
GIII US Equity	G-III Apparel Group Ltd	1,629	6.5	6.1	0.6	0.6	0.6	0.6	-94.4	-109.4	29%	2%	36%	3.29
Average			13.2	11.4	1.9	1.8	1.9	1.8	-47.1	-45.0	46%	0%	49%	2.02
Median			10.9	9.8	1.6	1.6	1.6	1.6	-35.0	-34.0	46%	-9%	51%	1.83
GIL CN Equity	Gildan Activewear Inc	6,973	13.5	11.8	2.6	2.4	2.6	2.4	-24.6	-22.1	14%	-13%	13%	1.73