



# DSR STOCK CARD

09/17/2019

## GILDAN ACTIVEWEAR (GIL.TO / GIL)

### Business Model

Gildan is a vertically integrated designer and manufacturer of basic apparel, including T-shirts, underwear, socks, and hosiery. Its primary market is the sale of blank T-shirts to wholesalers and printers (printwear). Gildan also sells branded clothing through retail and direct-to-consumer channels. Brands include Gildan, American Apparel, Comfort Colors, and Gold Toe. Gildan produces most of its clothing at factories in Latin America. The Montreal-based company generates most of its sales in the U.S. and was incorporated in 1984.

### The Company in a Nutshell

- GIL dominates the printwear business with high capacity and low-cost productions.
- The company operates a portfolio of well-known brands.
- Unfortunately, GIL faces many headwinds.

### Investment Thesis

Gildan shows a strong brand portfolio with names such as American Apparel and Gildan. The company uses its high capacity and low cost to compete in a fierce market where margins are very thin. Gildan focuses on basic apparel which improves its ability to sell at the lowest cost possible. The company generates strong cash flow and uses it to reward shareholders with shares buybacks and generous dividend increases. Speaking of which, please note that GIL pays its dividend in USD. A 1.25 FX rate has been used to calculate the DDM value. While GIL has well-positioned itself in a niche market (low style apparel), it remains an industry with a limited differentiation factor. Therefore, anybody can compete with GIL.

## VALUATION\*

Dividend Growth Rate Years 1-10: 12.00%

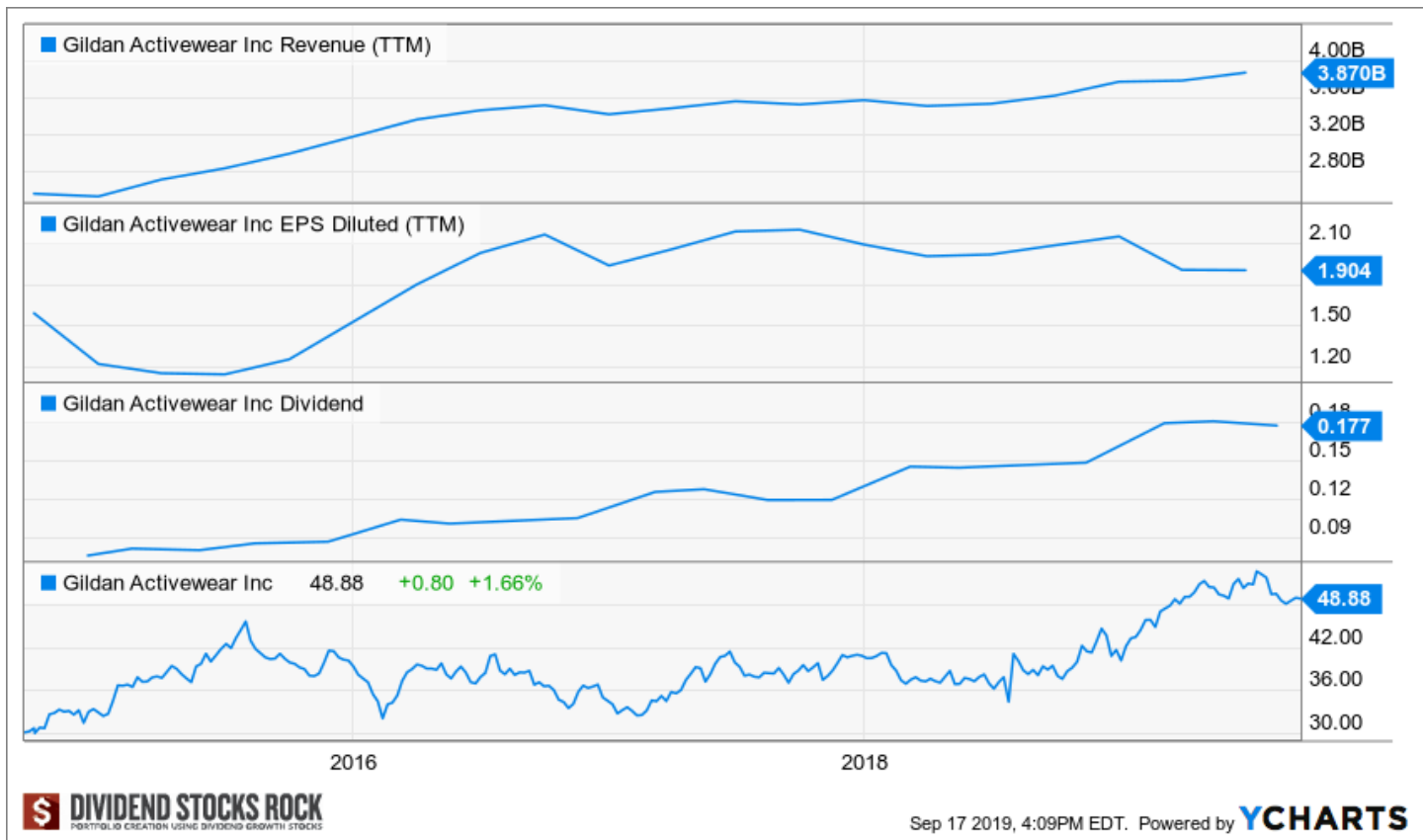
Terminal Dividend Growth Rate: 5.00%

	Discount Rate (Horizontal)		
Margin of Safety	9.00%	10.00%	11.00%
20% Premium	\$37.05	\$29.11	\$23.84
10% Premium	\$33.96	\$26.68	\$21.85
Intrinsic Value	\$30.88	<b>\$24.26</b>	\$19.87
10% Discount	\$27.79	\$21.83	\$17.88
20% Discount	\$24.70	\$19.40	\$15.89



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## Potential Risks

We do not consider GIL to have a strong competitive advantage. The company is offering a product that is difficult to differentiate from competitors in a market where price is King. Therefore, its growth perspective is solely based on its ability to produce the same t-shirt or underwear at a cheaper price than its neighbors. In order to do so, GIL must count on many manufactures in established in countries showing more political and economic stability.

## Dividend Growth Perspective

Gildan has successfully increased its dividend each year since 2012. Between 2012 and 2019, the company shows a total dividend growth rate of 198%. Please note that GIL pays its distribution in USD for both tickets (on CDN or US markets). With low payout and cash payout ratio, the company should continue to raise their dividend by high-single to double-digit growth numbers. \*The DDM value has been calculated with the USD payment and a currency factor of 1.25.