

Hanesbrands Inc. (HBI)

\$14.49 (As of 02/21/20)

Price Target (6-12 Months): **\$16.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/07/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: A

Momentum: F

Summary

Hanesbrands' shares have underperformed the industry in the past six months. The company has been battling soft sales in the Innerwear segment for a while. The trend persisted in fourth-quarter 2019, with unit sales declining 4.1% due to earlier-than-anticipated disruption from ongoing store resets and soft innerwear intimates category. Moreover, an unfavorable currency rate is a concern. Nevertheless, the company has been gaining from strong International unit and sturdy organic sales. Also, online business is faring well and supporting Global consumer-directed sales. At constant currency, organic sales were slightly up in the fourth quarter, marking Hanesbrands' tenth straight quarter of growth. Further, earnings improved 13% year over year and were in line with the Zacks Consensus Estimate during the quarter.

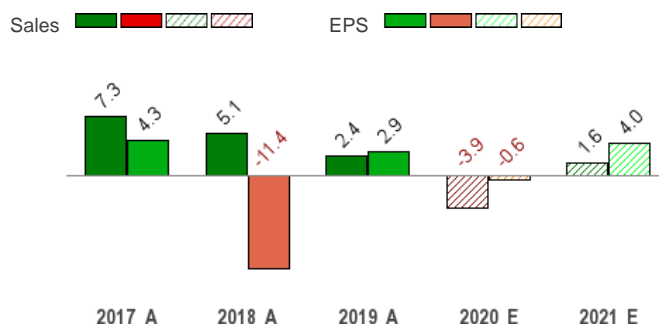
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$19.37 - \$12.90
20 Day Average Volume (sh)	7,874,413
Market Cap	\$5.3 B
YTD Price Change	-2.4%
Beta	1.16
Dividend / Div Yld	\$0.60 / 4.1%
Industry	Textile - Apparel
Zacks Industry Rank	Bottom 27% (185 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	0.2%
EPS F1 Est- 4 week change	-1.8%
Expected Report Date	NA
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					6,807 E
2020	1,486 E	1,649 E	1,808 E	1,755 E	6,698 E
2019	1,588 A	1,761 A	1,867 A	1,751 A	6,967 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$1.82 E
2020	\$0.25 E	\$0.42 E	\$0.55 E	\$0.53 E	\$1.75 E
2019	\$0.27 A	\$0.45 A	\$0.54 A	\$0.51 A	\$1.76 A

*Quarterly figures may not add up to annual.

P/E TTM	8.2
P/E F1	8.3
PEG F1	2.8
P/S TTM	0.8

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/21/2020. The reports text is as of 02/24/2020.

Overview

Headquartered in Winston-Salem, NC, Hanesbrands Inc. engages in the design, manufacture, sourcing and sale of apparel essentials for men, women and children in the U.S. and internationally. The company offers products under well-established brands such as Hanes, Champion, Playtex, Bali, Just My Size, Barely There and Wonderbra.

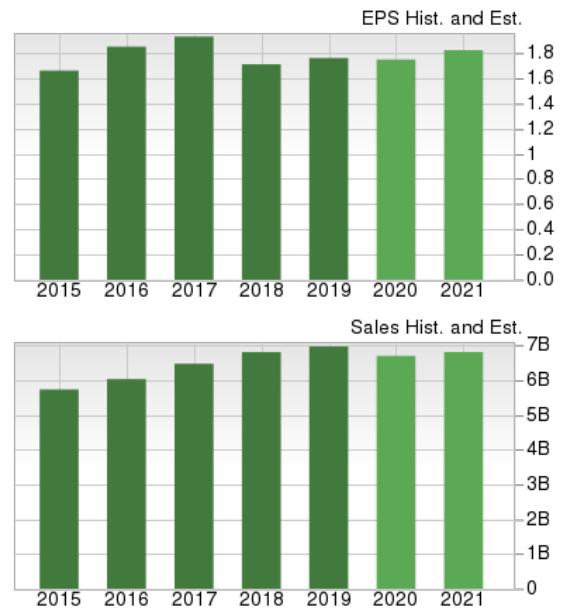
In the first-quarter 2017, management realigned its reporting segments. Now, Hanesbrands' U.S. retail Internet operations are reported in the respective Innerwear and Activewear divisions. Hanesbrands reports its operating results under the following segments:

Innerwear segment (33.1% of 2019 sales): This segment manufactures and sells core apparel products, such as women's intimate apparel, men's underwear, kids' underwear and socks, marketed under well-known brands like Hanes, Bali, Playtex, Barely There, Just My Size and Wonderbra. Innerwear segment also includes the Hosiery segment, which makes women's sheer hosiery in the United States.

Activewear segment (26.6% of 2019 sales): The segment consists of casual wear and active wear products. The casual product category provides comfortable clothing for men, women and children under the Hanes and Just My Size brands. The active wear products include T-shirts and fleece sold to both retailers and wholesalers. The company sells this segment's products to both retailers and wholesalers.

International segment (36.3% of 2019 sales): The International segment includes sales from Latin America, Asia, Canada, Australia, Japan, Mexico and Brazil. The company also has sales offices in India and China. The segment produces and sells products under brands such as Hanes, Champion, Wonderbra, Playtex, Stedman, Zorba, Rinbros, Kendall, Soly Oro, Ritmo and Track N Field.

Other (4% of 2019 sales): The Other category comprises the U.S. businesses for outlet stores, hosiery (earlier reported in the Innerwear division), along with legacy catalog business.



Reasons To Buy:

- ▲ **Robust Performance & Positive View:** Hanesbrands posted fourth-quarter 2019 results, with the bottom line rising year over year and meeting the Zacks Consensus Estimate. Adjusted earnings of 51 cents a share rose 13% from the year-ago quarter's figure. Also, the metric increased 5% to \$1.76 for 2019. Moreover, net sales for 2019 moved up 2% driven by strong International and Activewear businesses.

For 2020, net sales are expected in the range of \$6.675-\$6.775 billion. Adjusted operating profit is forecasted in the band of \$900-\$930 million. Further, the company envisions adjusted earnings in the range of \$1.72-\$1.80 for the year. At the mid-point, the current guidance for 2020 indicates year-over-year growth of 3% in net sales and 7% rise in adjusted operating profit. Further, the guidance represents mid-point growth of 15% for adjusted earnings.

Hanesbrands' impressive organic sales, backed by strength in Champion and International sales, has been aiding the top line. It is also on track with expanding offerings through innovation.

- ▲ **Organic Sales Growth Trend Continues in Q4:** In fourth-quarter 2019, Hanesbrands continued with sturdy organic sales growth. At cc, organic sales were slightly up, marking the company's 10th straight quarter of growth. Organic revenues in the quarter were driven by increased International unit sales, continued strength in Champion brand along with solid consumer-directed business.

Talking of the Champions brand, it has been performing strongly for a while and driving the company's growth on a global scale. During the fourth quarter, sales in both domestic and international Champion businesses surged 22%. In its international business, sales rose across all regions including Europe, Asia and Australia. The company is on track with augmenting its Champions product portfolio. Such well-chalked plans are expected to deliver double-digit growth in Champion sales in 2020.

- ▲ **International Strength Remains a Growth Driver:** Hanesbrands has long been gaining from solid performance of its international segment, which contributed nearly 37% to the company's net sales in the fourth quarter. Sales in the segment rose 6.9% to \$650.8 million (up 10% at cc). The uptick was driven by sturdy sales in innerwear and activewear units.

For the first quarter, management anticipates sales growth of 2% in the segment. Although the company expects operating profit in the segment to decline in the first quarter due to higher investments and currency headwinds, Hanesbrands is optimistic about registering revenue and operating profit growth for 2020. This is likely to come on the back of strength in intimates business, the completion of store resets in the mass channel along with widening of distribution networks in Asia. Also, cost savings initiatives and improved prices in various global markets are likely to aid growth.

- ▲ **Project Booster Program to Boost Cost Savings:** Hanesbrands launched a multiyear program in the first-quarter 2017 to drive investment for growth, minimize costs as well as increase cash flow. This program, which is well-positioned for the next five years, is likely to boost the company's Sell More, Spend Less, Generate Cash strategy for additional gains, mainly from the global commercial and supply chain scale through acquisitions. Furthermore, the Project Booster cost savings, along with other cash flow drivers like synergies from buyouts and diversified revenues bode well.

- ▲ **Strong Online Business:** As consumers are increasingly resorting to online shopping, Hanesbrands remains focused on developing its online sales. In the fourth quarter, the company's Global consumer-directed sales (including store and all online networks) grew 17% at cc and contributed 30% to total sales. Hanesbrands, which is global partner with Amazon, remains focused on making incremental investments in its online business, in order to keep pace with consumers' evolving shopping patterns.
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Reasons To Sell:

- ▼ **Unimpressive Innerwear Unit:** Hanesbrands has been battling soft sales at its Innerwear segment for quite some time now. In fourth-quarter 2019, Innerwear sales dropped 4.1% to \$569.6 million, thanks to earlier-than-anticipated disruption from ongoing store resets, which impacted innerwear basics. Also, sales of innerwear intimates were down during the quarter. In the first, second and third quarters, the unit witnessed sales declines of 3%, 2.3% and 3.5% respectively.

For the first quarter of 2020, Hanesbrands remains wary of its U.S. Innerwear segment, wherein the company is facing headwinds related to displacement of an important competitor and a retailer. Although management is on track with enhancing the segment, the same is yet to bear positive impacts upon the unit's performance. We note that, shares of the company have gained 7.7% in the past six months compared with the industry's growth of 12.8%.

- ▼ **Currency Headwinds to Hit Sales:** Hanesbrands is exposed to unfavorable foreign currency translations, as a considerable portion of total sales come from international businesses. The weakening of foreign currencies against the U.S. dollar may require the company to either raise prices or contract profit margins in locations outside the country.

Management expects adverse currency fluctuations to hurt net sales by approximately \$14 million in the first quarter. Also, currency headwinds are expected to lower 2020 net sales by \$25 million.

- ▼ **Stiff Competition:** The Intimate Apparel/Innerwear industry is highly competitive and extremely price sensitive. The company's strategy to focus more on premium brands and increase prices in these categories come with the inherent risk of consumers shifting to more competitively-priced brands offered by competitors. Thus, failure to offer high-quality distinguished products at a competitive price may hamper Hanesbrands' market share, resulting in lower earnings and sales.

- ▼ **Seasonal preferences:** Consumer demand for certain products depends on changes in seasonal preferences. In this regard, the company witnesses higher sales during the back-to-school and holiday shopping seasons. Meanwhile, demand for product categories such as fleece remains high during cooler weather. Thus, any fluctuation in the weather has a direct bearing on the company's top line.
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Hanesbrands has been struggling with weaknesses in its Innerwear category. Adverse impacts of currency rates and stiff competition are also worries.

Last Earnings Report

Hanesbrands Q4 Earnings Meet Estimates, Sales Down Y/Y

Quarter Ending **12/2019**

Hanesbrands Inc. reported its fourth-quarter 2019 results, with the bottom line improving year over year and meeting the Zacks Consensus Estimate. However, the company's net sales declined year over year.

Report Date	Feb 07, 2020
Sales Surprise	0.19%
EPS Surprise	0.00%
Quarterly EPS	0.51
Annual EPS (TTM)	1.77

Q4 in Details

The company posted adjusted earnings of 51 cents a share, in line with the Zacks Consensus Estimate. Notably, earnings improved 13% from the year-ago quarter's reported figure.

Net sales inched down around 1% to \$1,751 million. The Zacks Consensus Estimate was pegged at \$1,748 million. However, organic sales at constant currency (cc) were up slightly.

Sales in domestic Champion and international Champion surged 22% in the fourth quarter. In its international segment, sales rose across all regions including Europe, Asia and Australia.

Also, consumer-directed sales (including retail and online networks) rose 17% at cc and contributed 30% to total sales in the fourth quarter.

Moving on, adjusted operating profit inched up 1.6% to \$263 million. Also, adjusted operating profit margin increased 40 basis points (bps) to 15%.

Segment Details

Innerwear: Sales in the segment declined 4.1% to \$569.6 million due to earlier-than-anticipated disruption from ongoing store resets, which impacted innerwear basics. Also, sales of innerwear intimates were down during the quarter. Nevertheless, operating profit increased 4.7% to \$140.4 million.

Activewear: Sales fell 6.7% to \$453 million due to decline in C9 Champion program. Operating profit fell 8.2% to \$71.6 million, thanks to increased SG&A expenses.

International: Sales in this segment rose 6.9% to \$650.8 million (up 10% at cc). The uptick was driven by sturdy sales in innerwear and activewear units. Operating profit in the International segment declined 1.8% to \$96.8 million in the quarter.

Other: Sales dropped 2.7% to \$77.6 million. The segment posted an operating profit of \$8.4 million, up 17.3% year over year.

Other Financial Details

Hanesbrands ended the quarter with cash and cash equivalents of \$328.9 million, long-term debt of \$3,256.9 million and stockholders' equity of \$1,236.6 million.

During the quarter, the company generated net cash from operations of \$558.7 million and incurred capital expenditures of \$21.1 million.

Guidance

Management issued guidance for the first quarter of 2020. For the quarter, it anticipates the top line in the range of \$1.466-\$1.496 billion. The midpoint of guidance suggests a decline of 7% from the year-ago quarter's figure. Adverse currency fluctuations are expected to hurt net sales by approximately \$14 million compared with first-quarter 2019. Adjusted operating profit is expected in the band of \$145-\$155 million. The midpoint suggests a decline of 12% compared with the prior-year quarter's figure. Moreover, the company projects adjusted earnings in the range of 23-26 cents per share, a midpoint decline of nearly 7% from 2019.

For 2020, net sales are expected in the range of \$6.675-\$6.775 billion. Adverse currency fluctuations are expected to lower net sales by about \$25 million for the full year. Adjusted operating profit is forecasted in the band of \$900-\$930 million. Further, the company envisions adjusted earnings in the range of \$1.72-\$1.80 for the year.

At the mid-point, the current guidance for 2020 indicates year-over-year growth of 3% in net sales, 7% in adjusted operating profit. Further, the guidance represents mid-point growth of 15% for adjusted earnings.

Recent News

Hanesbrands Partners With Coca-Cola– Nov 22, 2019

Hanesbrands' renowned Champion Athleticwear brand teamed up with Coca-Cola Company to launch a limited edition capsule collection called Champion X Coca-Cola. The full range of men's and women's apparel along with accessories like hats, socks, slides and bags are now available at six Champion retail stores in major cities in the United States, as well as Champs Sports and Foot Locker (FL) stores across the United States and Canada. The newly launched collection is also available at Footaction stores and online platforms like Eastbay.com and Champion.com.

Hanesbrands Announces Dividend – Oct 22, 2019

Hanesbrands announced a quarterly cash dividend of 15 cents a share, which is payable on Dec 3, 2019 to shareholders of record as on Nov 12.

Valuation

Hanesbrands shares are down 1.4% in the year-to-date period, and 20.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary sector are down 8.8% and 0.7% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is up 1.7% while the sector increased 11.4%.

The S&P 500 index is up 3.9% in the year-to-date period and 21.1% in the past year.

The stock is currently trading at 8.24X forward 12-month earnings, which compares to 16.61X for the Zacks sub-industry, 20.23X for the Zacks sector and 19.09X for the S&P 500 index.

Over the past five years, the stock has traded as high as 20.52X and as low as 6.33X, with a 5-year median of 10.79X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$16 price target reflects 8.91X forward 12-month earnings.

The table below shows summary valuation data for HBI

Valuation Multiples - HBI					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	8.24	16.61	20.23	19.09
	5-Year High	20.52	23.06	23.34	19.34
	5-Year Low	6.33	14.31	16.15	15.18
	5-Year Median	10.79	18.29	20.06	17.47
P/S F12M	Current	0.78	2.23	2.28	3.51
	5-Year High	2.32	2.58	3.19	3.51
	5-Year Low	0.61	1.55	1.81	2.54
	5-Year Median	1.21	2.07	2.54	3
EV/EBITDA F12M	Current	8.25	16.69	10.74	12.66
	5-Year High	15.8	19.11	12.76	12.66
	5-Year Low	7.26	11.74	8.55	9.08
	5-Year Median	10.46	14.64	10.76	10.79

As of 02/21/2020

Industry Analysis Zacks Industry Rank: Bottom 27% (185 out of 255)



Top Peers

Guess?, Inc. (GES)	Outperform
G-III Apparel Group, LTD. (GIII)	Outperform
Ralph Lauren Corporation (RL)	Outperform
lululemon athletica inc. (LULU)	Neutral
Under Armour, Inc. (UA)	Neutral
Under Armour, Inc. (UAA)	Neutral
Columbia Sportswear Company (COLM)	Underperform
PVH Corp. (PVH)	Underperform

Industry Comparison Industry: Textile - Apparel				Industry Peers		
	HBI Neutral	X Industry	S&P 500	COLM Underperform	GIII Outperform	UAA Neutral
VGM Score	A	-	-	B	C	B
Market Cap	5.25 B	1.15 B	24.03 B	6.14 B	1.23 B	7.24 B
# of Analysts	5	4	13	6	6	15
Dividend Yield	4.14%	0.00%	1.76%	1.06%	0.00%	0.00%
Value Score	A	-	-	C	B	C
Cash/Price	0.06	0.09	0.04	0.11	0.04	0.10
EV/EBITDA	8.54	9.83	14.08	13.89	7.90	18.26
PEG Ratio	2.71	2.22	2.08	2.52	0.73	4.70
Price/Book (P/B)	4.25	2.22	3.29	3.32	0.97	3.37
Price/Cash Flow (P/CF)	6.69	8.75	13.42	13.80	6.95	21.15
P/E (F1)	8.14	12.41	19.00	18.83	8.32	127.98
Price/Sales (P/S)	0.75	0.63	2.64	2.02	0.39	1.38
Earnings Yield	12.08%	8.06%	5.26%	5.31%	12.03%	0.81%
Debt/Equity	2.92	0.65	0.70	0.20	0.74	0.55
Cash Flow (\$/share)	2.17	1.63	7.03	6.59	3.70	0.76
Growth Score	A	-	-	A	D	A
Hist. EPS Growth (3-5 yrs)	2.88%	2.88%	10.84%	19.86%	3.67%	-17.32%
Proj. EPS Growth (F1/F0)	-0.68%	4.44%	7.09%	-0.07%	-1.33%	-63.14%
Curr. Cash Flow Growth	2.71%	9.60%	6.72%	30.70%	55.48%	12.74%
Hist. Cash Flow Growth (3-5 yrs)	2.82%	4.10%	8.25%	17.53%	14.76%	4.10%
Current Ratio	1.82	1.82	1.22	2.97	2.36	1.90
Debt/Capital	74.51%	39.94%	42.37%	16.73%	42.58%	35.31%
Net Margin	8.70%	2.69%	11.56%	10.86%	4.50%	1.75%
Return on Equity	55.80%	10.77%	16.80%	18.53%	12.27%	7.18%
Sales/Assets	0.90	1.14	0.55	1.11	1.23	1.13
Proj. Sales Growth (F1/F0)	-3.86%	0.00%	3.90%	5.50%	4.99%	-3.00%
Momentum Score	F	-	-	B	C	F
Daily Price Chg	-1.56%	-0.54%	-0.83%	-0.75%	-3.09%	-2.79%
1 Week Price Chg	0.70%	0.00%	1.65%	1.08%	-3.03%	-15.11%
4 Week Price Chg	0.35%	-6.31%	-0.37%	-5.04%	-14.03%	-24.45%
12 Week Price Chg	-5.91%	-5.95%	3.74%	-2.52%	-12.83%	-16.02%
52 Week Price Chg	-24.29%	-24.29%	14.14%	-13.28%	-28.71%	-25.12%
20 Day Average Volume	7,874,413	128,680	1,992,841	467,790	483,832	8,187,556
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	2.61%
(F1) EPS Est 4 week change	-1.80%	0.00%	-0.02%	-5.67%	0.87%	-73.37%
(F1) EPS Est 12 week change	-2.67%	-1.49%	-0.17%	-6.51%	-0.74%	-73.89%
(Q1) EPS Est Mthly Chg	-9.82%	-9.82%	-0.48%	-20.16%	0.00%	-316.04%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	A
Growth Score	A
Momentum Score	F
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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