



## Is Spin Master Corp. Heading for a Correction?

### Description

**Spin Master Corp.** ([TSX:TOY](#)) is a fantastic Canadian company that owns many terrific brands such as Hatchimals, Air Hogs, PAW Patrol, and Aquadoodle. The stock has been on a huge run driven by all the buzz surrounding its Hatchimals toy, which is the hottest toy of the year and could be the biggest thing since Tickle Me Elmo from the 1990s.

The stock has been soaring with serious positive momentum, but this Monday the stock tanked 5.45% in a single trading session. There was no real negative news out of the company—the stock just fell back down to Earth after having an impressive run upwards. The business is fantastic, but the stock is very expensive right now; even with the positive reception over the hottest toy this Christmas season, the stock trades at an absurd 32.95 price-to-earnings multiple and pays no dividend.

I believe the momentum is slowing down and there could be a correction in the stock price back to more reasonable levels. Sure, Hatchimals has been a huge success with its consumers, but the big problem I see here is the huge amount of undersupply for this toy. The management team at Spin Master clearly didn't think the toy would experience the magnitude of success it is having now.

### Undersupply won't meet the demand before the holidays

The demand for Hatchimals this holiday season is high; in fact, there are people willing to pay hundreds, even thousands, of dollars for the toy via third-party resellers. This is lost profit for Spin Master, because nobody knows how long the Hatchimals toy will remain popular.

The management team at Spin Master is doing what they can to get supply to match demand, but, unfortunately, it won't be able to meet the demand before the holidays. The toy will be back on the shelves of stores by early next year, but it's a mystery as to whether or not the toy will still be as hot as it is right now before Christmas time.

There's no question that this undersupply will take away from what could have been a quarter for the record books. The quarter will still be a fantastic one, but investors are too caught up in the hype of Hatchimals and aren't considering the fact that demand won't be fully met. This demand may not be there forever, and by the time the holidays are over, the demand may fall back to the floor.

It's very hard to say right now, but the demand for Hatchimals could still be high in the New Year. If it is, then Spin Master could be on its way past \$40 by the end of next year, but one thing is certain: the demand is sky high, but there's nothing that can be done to capitalize on this right now.

The stock looks way too expensive right now, and despite the popularity of Hatchimals, the stock may be headed back to the low \$30 level in the short term. When it does hit this level, the stock may start being an attractive buy for growth investors. But until this happens, be careful, as there's no margin of safety at this level.

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1. Investing

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