



Spin Master Corp.: The Correction Is Overdone

Description

Spin Master Corp. ([TSX:TOY](#)) has now pulled back 21.52% since its November 2016 peak over short-term concerns relating to Hatchimals that would not hatch and an undersupply of the toy, whose demand skyrocketed during the holidays.

Spin Master had a class-action lawsuit filed against it by a group of angry parents that claimed the company was conducting a “bait and switch scheme,” which I thought was unwarranted considering that the company had nothing to gain from such a scheme. Accidents happened, and, unfortunately, “phygital” (physical and digital) toys are more prone to malfunctions than your typical non-tech toy.

The only thing that the class-action lawsuit against Spin Master will result in is a huge buying opportunity for long-term investors that would like to beef up their portfolios with a terrific growth name.

Last November, I [warned investors](#) that a correction could be in the works because the stock had soared ahead of itself, and there was no margin of safety present. I predicted that the stock could head to the low \$30s in the short term, and this is indeed where the stock is at right now. The stock was highly vulnerable to headline risk, and the endless “Hatchimals wouldn’t hatch” stories eventually brought the stock down to the \$30 level. At this level, I think Spin Master is a great buy at an attractive valuation. It’s a fantastic Canadian company with a terrific vision and a promising future.

Spin Master has an impressive portfolio of brands and has become one of the world’s best children’s entertainment companies. The management team knows how to innovate, and it’s the reason why Spin Master won 18 TIA Toy of the Year awards. More recently, Hatchimals won Toy of the Year for 2017.

I believe Hatchimals will become a huge driver of earnings over the long term, as I think the toy is here to stay, and the next holiday season could be one for the record books for Spin Master. The demand for Hatchimals will continue to be very strong this year once the company can sort out its supply issues.

The company knows how to innovate, and Hatchimals still has the potential to bring the stock out of the gutter. Many investors are passing on Spin Master because of the negative press, but I believe there's an opportunity to buy Spin Master at a huge discount to its intrinsic value. The stock is absurdly cheap with a 15.8 forward price-to-earnings multiple given its great growth prospects.

The company is set to release its Q4 2016 and full-year earnings report on March 13. I'm not sure what the reaction will be after the quarter, as all the bad news seems to already be baked in to the stock. I'd recommend buying half now and half after the report.

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