Spin Master Corp.: 2nd Chance to Buy the Dip?

Description

Spin Master Corp. (TSX:TOY) is down nearly 17% from its high last month, and it appears that the negative momentum is picking up, making this great stock a falling knife. The company posted an underwhelming Q1 2017 earnings report which caused short-term investors to panic and dump their shares. The bleeding sparked by the weak quarterly report appears to still be happening, but I think the pessimism is completely overblown. Disciplined long-term value investors might be able to grab a terrific entry point on a fantastic business on this post-earnings weakness.

The stock looks like it may be headed to the lows seen during the latter part of last year when the Hatchimals concerns were at their peak. During the last sell-off, I urged investors to buy the stock on the way down, as it was likely that the class-action lawsuit over Hatchimals that wouldn't hatch would be withdrawn. I believe this current dip is a second chance for investors who missed the Hatchimals sell-off from last December. The first-quarter results were not as bad as the massive decline would suggest. Although there's a lot of negative momentum, it would be a prudent decision to keep an eye on the stock with the intention of buying in small increments as the stock continues its tumble.

Anton Rabie, chairman and co-CEO of Spin Master stated that the first quarter "is seasonally the smallest quarter of our year." Spin Master is susceptible to the effects of seasonality, but investors wouldn't have any of it, as the selling continued over the month following the earnings release.

The company reported US$227.7 million in revenue, which was up 40.8% from US$161.7 million compared to the same period last year. If you exclude revenue from recently acquired Swimways, revenue from Q1 grew by 19.8%. Gross product sales increased 31.8% to US$229.1 million thanks to Hatchimals, PAW Patrol, and Swimways. Gross profit was up 32.7% to US$113.3 million, but gross margins decreased partially due to the impact of recent acquisitions. Adjusted EBITDA was up to US$30.8 million in the quarter — up from US$24 million during the same period last year.

Spin Master will see a much stronger second half of the year than the first half. Patient investors who intend to hang on to the stock over the long haul may want to continue adding to their stakes on further signs of weakness that may happen in the coming months.

The stock currently trades at a 27.24 price-to-earnings multiple, which appears to be cheap when you consider the astronomical growth prospects offered by Spin Master. TD Securities has a $48 price target on the stock, which represents whopping upside of around 36%.

The stock is falling right now, but I think it's safe to start buying on the way down. Spin Master is an incredible long-term play with a strong pipeline of innovative products, and I believe the general public is too concerned with short-term results.

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