Is Spin Master Corp. a Buy Following the Toys “R” Us Bankruptcy?

Description

Year to date, shares of Canadian toy manufacturer **Spin Master Corp.** (TSX:TOY) have appreciated nicely for investors, up nearly 35% since the beginning of the year. Following strong earnings and an improved outlook for the company’s long-term and near-term prospects, investors have piled in to this growth name in droves, expecting continued outperformance following the release of the company’s second-generation Hatchimals collection.

According to market research done on the near-term growth trend of the toy industry in North America, NPD Group estimates that the overall market will grow by 4.5% in 2017 — a growth rate which outpaces many other industries that have seen flat or falling revenues recently. With high profit margins and a strong stable of intellectual property to leverage, the thought is that companies such as Spin Master should be able to continue to nibble away at a larger piece of a growing pie — a trend that can potentially be very favourable for investors over a long period of time.

That said, it appears not all is well on the retail side of the toy-distribution equation. North America’s largest pure-play toy retailer Toys “R” Us has officially filed for bankruptcy in both Canada and the U.S., signaling the company’s high debt load may simply be too much to handle, forcing the company to restructure its business model and capital structure prior to this year’s holiday season.

The question of how this bankruptcy will impact Spin Master remains to be seen; the toy manufacturer has done a very good job of leveraging multiple distribution channels to get its products out to its customers, including a number of licensing and royalty deals for Spin Master’s original content. Toys “R” Us stores (both physical and online) will remain open as the company looks to restructure. Certainly, growing in a profitable way will move to the top of the priority list for Toys “R” Us, and with in-demand items such as Hatchimals expected to drive a larger percentage of the retail business’s foot traffic, I do not expect to see any material effect on Spin Master’s bottom line as a result of this bankruptcy.

Bottom line

Chapter 11 bankruptcy protection is not likely to be the end of the story for Toy “R” Us, and I would suggest long-term investors interested in unique mid-cap growth plays on the TSX take a hard look at companies like Spin Master. Still valued reasonably, with a market capitalization of only $4.5 billion, the growth potential of Spin Master makes this company an intriguing opportunity amid few such options available today.

Stay Foolish, my friends.

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