
# Spin Master Corp. Is Down 8% From its High: Time to Buy?

## Description

On Friday, shares of Canadian toy maker **Spin Master Corp.** (TSX:TOY) closed approximately 4% lower as investors sought to take profits off the table following a report that U.S. toy chain Toys R Us is now preparing for liquidation. While many in the industry believed that a restructuring may have been on the table, time appears to be running out for a deal with the retailer, thereby leading to a sell-off among toy manufacturers such as Spin Master, which has been on an incredible run lately.



Liquidation sales in many of Toys R Us' locations have been put in place to meet debt payments and pay severance. In the U.K., Toys R Us has been placed under administration (the equivalent of Chapter 7 bankruptcy in the U.S.), thus leading to speculation that bankruptcy protection will be sought in the U.S. market, an event that would impact manufacturers such as Spin Master given the importance of the U.S. market to the company's top and bottom lines.

The reality remains that a possible suitor could show up in short order to save the firm, in which case buying into the toy industry at its current levels could be a very big win for investors in the near to medium-term. The manner in which parents shop for toys for their children has changed dramatically, and as such, companies like Spin Master have been proactive in seeking e-commerce partners to take on a bigger percentage of the company's overall revenue.

Spin Master's solid fourth quarter results have led to its rapid share price increase recently. The company appears to be firing on all cylinders, and as such, a very strong bull argument can be made for picking up shares of Spin Master on this recent dip.

### Bottom line

While the retail environment continues to remain shaky, investors in toy companies like Spin Master will need to put their faith in the underlying brand value related to the offerings provided to consumers. At its current levels, Spin Master remains fairly valued and indeed, comparatively attractive compared to the broader market. However, concerns remain that consumer spending on discretionary items such as toys may take a hit in the next cyclical downturn.

Now may therefore be the time to trim some profits off the top for investors who have held positions in

Spin Master for some time. For those looking for a more attractive entry point, waiting to see how the bankruptcy with Toys R Us unfolds maybe be wise, as most of the evidence is pointing to a liquidation unless the retailer can find a way of making debt payments on approximately $5 billion worth of debt related to a leverage buyout more than a decade ago.

Stay Foolish, my friends.

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chrismacdonald