This Red-Hot Growth Stock Is on Sale!

Description

Spin Master Corp. (TSX:TOY) shares are down nearly 13% from its high following the news that U.S.-based Toys "R" Us stores are going the way of the dodo bird. Many analysts believe that the death of Toys "R" Us will cripple toy innovation and that kids will have a hard time discovering the next hit toy.

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The downfall of Toys "R" Us has caused toy companies, large and small, to shed a substantial amount of value over the last few weeks, as they scramble to find a retail chain to fill in the hole left behind by the end of Toys "R" Us.

Naturally, Spin Master, arguably the most innovative toy company out there, has taken several steps back after surging since its IPO a few years ago. And while investors have the right to be concerned, will the Toys "R" Us bankruptcy really leave a long-lasting dent in the top line of Spin Master? Or is the current dip just an attractive entry point for those who want to get in on one of the biggest growth stories on the TSX?

At this point, I think the Toys "R" Us fears are overblown. Over the last few years, Spin Master has gradually become less reliant on the retailer for its gross product sales (GPS). And going forward, the company is committed to having online sales contribute a larger portion of GPS. Spin Master is arguably the best-positioned toy company to deal with the Toys "R" Us bankruptcy, as management has embraced technology, and the imminent failure of the retailer may actually pose as a long-term opportunity to increase its margins by going directly to the consumer via an online platform of its own.

Furthermore, Spin Master is going all-in on its global expansion efforts with new international distribution facilities in place. Toys "R" Us is technically a global retailer; however, most of its locations are within the U.S. Given Spin Master's aggressive global expansion initiative, the company would have reduced its reliance on Toys "R" Us anyway, as other international toy retailers would have contributed to more of the company's GPS.

Spin Master has ambitious plans to hit its target of 40% international penetration. It's clear that the estimated ~$150 million in expected GPS growth would have reduced the company's exposure to any one retailer.

With this in mind, I believe the Toys "R" Us bankruptcy is a short- to medium-term issue for Spin Master that's already baked in to shares at these levels. Spin Master has the ability to experience next-level growth with or without its top retailer. In three to five years from now, I'm confident that Spin Master will be much higher than it is today as digital GPS begin to take off.

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