



Why These 2 Stocks Will Own the Canadian Toy Industry in 2019

Description

It may be way too early to start talking about the upcoming holiday season, but I'm going to do it anyway.

Investors have already largely put the second quarter in the rear-view mirror, and expectations are abounding for what is to come in Q3 and especially Q4 for companies operating in the children's entertainment, or toy, industry. I'm going to discuss two companies I believe will take over the Canadian toy sector in 2019 (perhaps as early as late 2018), discussing my case for why **Fairfax Financial Holdings Ltd.** ([TSX:FFH](#)) may make an offer for Canadian toy maker **Spin Master Corp.** ([TSX:TOY](#)) in this time frame.

Toys "R" Us out; Fairfax in

The world of retail has completely evolved, and, unfortunately, some retailers have not gone along for the ride. The evolution of retail away from the more traditional brick-and-mortar model toward e-commerce has left certain companies with less pristine balance sheets on the outside looking in.

A [recently approved \\$300 million bid](#) by Fairfax for the Canadian Toys "R" Us business has many in the industry believing that all may not be lost with respect to this iconic retailer, at least in Canada. As fellow Fool contributor Joey Frenette has pointed out, as a real estate play, acquiring Toys "R" Us assets — with an estimated book value of approximately \$300 million — just makes sense, especially given the heavy real estate focus of Fairfax and the ability of the firm to add value to existing Toys "R" Us locations, one of the oft-cited missed opportunities that potentially led to the company's demise.

A portfolio of unencumbered retail assets worth \$300 million could be worth much more to Prem Watsa's Fairfax — a company with a known history of maximizing value in the real estate sector. Besides the obvious benefit of acquiring a business such as Toys "R" Us for "free," Fairfax may be viewing this acquisition as a strategic multi-level deal which could involve other companies.

Where would Spin Master fit in?

Conglomerates like Fairfax often look for bolt-on opportunities to enhance a current portfolio of

businesses and increase profitability across a specific value chain. As such, an acquisition of a company like Spin Master may make sense for Fairfax if and when this proposed buyout completes. Spin Master's portfolio of products are key performance drivers for Toys "R" Us, and strategically, it may make sense for Fairfax to look at Spin Master as a means of shaping traffic to its stores by limiting outside channels, if it chooses to do so.

From an operational standpoint, Spin Master is an [excellent business](#) with a track record of creating original intellectual property, which is extremely valuable in the long term. Regardless of a potential move by Fairfax, I believe both firms are well positioned to dominate their respective segments independently, although it would be very interesting to see a combination down the road.

Stay Foolish, my friends.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:FFH (Fairfax Financial Holdings Limited)
2. TSX:TOY (Spin Master)

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