TFSA Investors: This Top Growth Stock Is Skyrocketing and it’s Still Cheap!

Description

Spin Master Corp. (TSX:TOY) surged 7.31% in a single trading session following the release of its Q1 2018 earnings report, which saw adjusted EPS of $0.22, crushing analyst expectations of $0.15. In many previous pieces, I’ve strongly urged investors to load up on Spin Master stock on the Toys “R” Us-induced sell-off, as the extent of the potential effects was overblown, and the innovative nature of the business would ultimately offset the headwind of the Toys “R” Us bankruptcy.

In retrospect, it’s clear that Spin Master was unfairly beaten up. Moving forward, I think shares could be on a sustained rally past all-time highs, as investors gradually shed their fears over the Toys “R” Us fallout.

Spin Master management revised its outlook to the downside following the Toys “R” Us fallout, as expected, but the severity of the impact was not as dire as the general public thought. While the bankruptcy of U.S.-based Toys “R” Us locations will undoubtedly leave a hole in the industry, I’ve mentioned that rivals would be quick to fill the gap, and that the demand for toys would not meaningfully decline due to the absence of Toys “R” Us.

“Some pundits argue that the exit of Toys “R” Us would leave a huge void in the toy industry. However, I believe toy buyers will simply move their business to another brick-and-mortar retailer or opt for a digital one. And toy manufacturers like Spin Master [will] not be severely impacted as many would expect. The demand for toys, I believe, will be minimally impacted by the shutdown of the U.S.-based Toys “R” Us locations.” I wrote on April 30th. “…many physical retailers that weren’t traditionally toy sellers will jump in to fill the void.”

This is indeed what’s happening, according to recent commentary from management during Wednesday’s conference call: “There’s a lot of non-traditional players that are very eager to also enter the toy category sales, just because they see that now as a tremendous opportunity for them,” said Ben Gadbois, global president and COO of Spin Master.

Furthermore, I’ve also noted the Toys “R” Us fallout represented an attractive time for Spin Master to pursue acquisitions at a potential discount. Gadbois also noted that the company “see[s] some merger and acquisition opportunities arising out of this situation.”

With ~$105 million in net cash at the end of the first quarter, it’s clear that Spin Master will be busy pulling the trigger on compelling takeover targets, preferably ones that stand to be most affected by the closure of U.S.-based Toys “R” Us locations.

Shares are still cheap!

Q1 2018 was solid, but the biggest takeaway was the smaller-than-expected downward revisioncaused shares to correct to the upside. At these levels, investors can now put their Toys “R” Us fearsto rest, as they focus on the promising growth opportunities that lie ahead.

Even after the recent pop in shares, the stock still trades at just over 20 times forward earnings. For a growth stock that’s as robust as Spin Master, these valuations simply don’t make sense. I’d buy now, as I think the Toys “R” Us relief rally is far from being over.

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