Is Now the Time to Add Spin Master Corp. (TSX:TOY) to Your Growth Portfolio?

Description

I often like to keep track of stocks that I could buy in the event of a downturn. While I do not always buy these stocks immediately, keeping a list of companies with excellent fundamentals, great balance sheets, and growth prospects can be helpful when the time comes. A recession or general market downturn can provide excellent buying opportunities, so it pays to be prepared.

It can be difficult to find these companies, but it is often worth the look. After digging through several stocks in the TSX listings, **Spin Master Corp.**(TSX:TOY) seems to be appealing as a long-term hold at the right price. Most of the company's revenues come from toy sales and royalties originating from its toys and intellectual property related to its brands.

The company has a number of well-known brands, including Hatchimals, that were all the rage a few years ago. It operates in three regional segments: North America, Europe, and the rest of the world.

Although the company has not been around for a long time, it has strong and increasing financials and is experiencing excellent growth. In Q1 2018, its revenues increased by 25%. The biggest issue is the fact that net income was down 13% over the same period. The company attributed much of the decrease to expenses relating to bad debt resulting from the bankruptcy of Toys "R" Us (TRU). On the positive side, though, this decrease was offset by higher gross margins and an increase in other income.

One area of concern for the company was the bankruptcy of TRU. As is the case with many toy companies, its bankruptcy negatively impacted Spin Master's sales and income. The final impact of the toy retailer's demise will be played out over the next several years, but Spin Master noted in its quarterly report that the effect may not be as severe as was originally expected. This in part is due to the fact that many of TRU's international stores have been sold and are still open for business.

The jury is still out as to whether Spin Master would make a good investment for the long term. On the one hand, the company has a lot of excellent brands that continue to drive recurring, growing revenue through sales and royalties. Its balance sheet is strong with low debt and excellent income from operations, aside from one-time costs. It is also a positive sign that the company has not diluted shareholders by keeping the share count relatively stable.

On the other hand, net income did decrease. Free cash flow was negative for the period, although a large part of this was notably due to the construction of its new Toronto headquarters. And the final impact of the collapse of TRU is yet to be seen.

At present, the positives appear to outweigh the negatives for Spin Master. Over the next several quarters, it would be wise to watch and see if free cash flow, net income, and earnings improve and resume moving upwards. A positive financial picture, along with a retreat in the share price resulting from a general market pullback, might make this a good company to add to a Canadian investor's portfolio.

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