



Bargain Hunters: Buy This Best-in-Class Stock on the Dip Before It's Too Late

Description

Spin Master Corp. ([TSX:TOY](#)) abruptly surrendered the gains from its post-earnings rally this Wednesday on news that the founders are planning to sell off a considerable chunk of subordinate voting shares (up to \$171.6 million) in a secondary offering, while another group of employees are planning to dispose of around 24.4% of their own shares in a block trade.

Fellow Fool contributor Kay Ng did a great job of explaining the development in a [piece published August 8, 2018](#). The biggest takeaway is that insiders are selling their shares in colossal quantities, and they don't seem to want to gradually offload their shares, unlike many other insiders, who offload in order to avoid negative attention from the public dissemination of the material event.

As Kay noted, insider selling isn't necessarily an indication that they're bearish, but given the magnitude and the abruptness of the selling from multiple insiders, I'd say that investors definitely have the right to be worried, especially given that there's little information on why the insiders decided to proceed rashly.

They must know something you don't, right?

They're insiders. Perhaps another widespread defect in an upcoming toy? Or maybe there's a supply chain issue that the company will disclose in the future?

There are many reasons why a group of insiders may coordinate such a sale, and while investors could worry themselves to death trying to dig for answers, I believe the reason isn't as bad as the public may believe.

Sure, the founders are ditching their shares, but it's worth remembering that they owned a massive amount (around 96%) of controlling shares to begin with. They're reducing their position substantially, but that doesn't imply that they're losing confidence in their company.

So, why exactly did insiders co-ordinate such a sale? Is something insidious on the horizon that we outsiders don't know about?

It's easy to think that, but I believe the real reason is far more benign than the public was led to believe.

Spin Master just came off a solid Q2 2018 quarter over a week ago and guidance was healthy. Nothing has changed in that regard. The real reason may be factors that are beyond the control of management.

I'm just making an educated guess here, but I believe the reason for the selling is due to the negative implications of U.S. tariffs placed upon Chinese goods. Approximately 75% of Spin Master's production is based out of China, with 68% of its sales coming out of North America, a hefty chunk of which is derived from the U.S.

With that in mind, there's no question that Spin Master could feel the effects from an escalating tit-for-tat spat between China and the U.S.

Spin Master's founders can't control these exogenous issues, and while they probably didn't want to cause an investor panic, I believe it's all about reducing their personal exposure to geopolitical risk.

Foolish takeaway

I think the fears over news of insider selling are overblown beyond proportion. Tariffs will have a material impact on Spin Master's future results, but I think potential negative implications could easily be offset by a superb holiday season with a solid lineup of toys.

Keep in mind that management is pretty horrible at forecasting their own success. Remember Hatchimals' release a few years ago?

Nobody, not even management, knew what a hit the toy would be when it was first released, which is why management was ill-prepared to deal with the shortage! I think management is underestimating its abilities once again and would encourage investors to continue buying the stock on weakness. It looks ridiculously cheap after the +6% dip, and I remain bullish on the [long-term growth prospects](#).

Stay hungry. Stay Foolish.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:TOY (Spin Master)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

Date

2025/08/28

Date Created

2018/08/10

Author

joefrenette

default watermark

default watermark