Spin Master Corp. (TSX:TOY): Timing Is Everything

Description

It's been a week since Toronto-based toy maker **Spin Master Corp.** (TSX:TOY) announced second-quarter results that were better than analyst expectations on both the top and bottom line.

Despite the company's solid results in the second quarter, Spin Master stock is retreating as I write this on news the founders are selling 2.8 million shares in a bought deal priced at $53.40 a share — a good 7%, or more than $4 below, its August 2nd high of $57.50.

If you own TOY stock, I would not be selling on the news, as the founders will still own almost 96% of the votes after the bought deal's completion. There are plenty of reasons why large shareholders sell that have nothing to do with their opinion of the company's affairs. It's a non-starter.

If you don't own Spin Master stock

Here are three examples of Spin Master's stock performance in 2018.

1. If you'd bought Spin Master on December 29, 2017, at the day's high of $54.17, and are still holding, you've generated a 4.8% unrealized loss year to date through August 8 midday trading.

2. If you'd bought Spin Master stock at the April 19, 2018, high of $46.76, you're sitting on a 10.4% unrealized gain through August 8th midday trading.

3. If you'd bought Spin Master stock at the July 4th high of $59, you're sitting on a 12.5% unrealized loss.

Those are three very different outcomes over the span of seven months, illustrating how volatile Spin Master's stock been thus far in 2018.

At the moment, it has a one-year beta of 1.44 (anything above one is more volatile than the TSX as a whole); its three-year beta is a more palatable 0.98, which means over the past three years, Spin Master's stock's been slightly ***less*** volatile than the index as a whole.

So, if you're considering buying Spin Master stock, you might want to think about how much volatility you're willing to put up with should this period of unsettling price movements continue.

What we do know

Despite Toys "R" Us closing in the U.S. in 2018, Spin Master's North American sales, which account for 68% of its overall revenue, grew by 3% in the second quarter to US$201.5 million.

That's no small feat considering its European sales, also affected by the Toys "R" Us closing in the U.K., declined by 7.1% during the quarter; as a result, its European segment contributed less revenue than the rest of the world.

However, if you look at the company's six-month numbers, they're much healthier, with all three segments showing double-digit year-over-year revenue growth.

A couple of quarters from now, investors will have forgotten about the Toys "R" Us bankruptcy. I know I sure will.

I used to be somewhat skeptical of Spin Master's stock as a result of its Hatchimals controversy during the 2016 Christmas shopping season when irate parents were bombarding the company's phone lines because the toy eggs wouldn't hatch on cue, making them a dud gift come the big day.

Like the Toys "R" Us situation, Spin Master seems to respond to adversity better than most TSX companies — a trait that investors have got to appreciate.

My Fool colleague, Kris Knutson, put it best, recently suggesting that the positives outweigh the negatives at this point.

I couldn't agree more.

If TOY drops into the $40s, I'd back up the truck and buy, buy, buy. In five years' time, you'll be glad you did.

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2018/08/10
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