The Little-Known Tech Stock That Could Make You Rich

Description

Spin Master Corp. (TSX:TOY) is a toy company that has soundly beaten the market over the past five years. In this short time, the company has more than tripled in price.

These are serious returns. But can the company keep it up?

There's reason to believe that it will. In this article I'll make case for Spin Master and why it might be one of the best tech stocks in Canada despite its relatively low profile.

Products and sales

Spin Master is specializes in small toys like airplanes, remote-control cars, and action figures. Many of the company's products are equipped with high-tech features, which is why Spin Master is often categorized as a tech company.

Spin Master delivered stronger-than-expected results in the second quarter. Despite relatively slow growth in toys–about 1% a year globally–Spin Master saw fast-paced revenue growth. The company's quarterly revenue grew at 25.5% year-over-year, which is well-ahead of the industry average. Net income was down 13%, but this decrease was offset by higher gross margins.

Excellent returns on equity

One strong metric in favour of Spin Master is its return on equity (ROE). At 37.66%, it's one of the highest you'll find among publicly traded stocks. By contrast, similar stocks have ROE figures of about 11% on average.

ROE is a metric that measures how well a company generates profit per dollar of shareholder equity. The higher the ROE, the more profit is being generated from the underlying value (assets minus liabilities) of shares you own.

Positive analyst coverage

Analyst coverage of Spin Master, as reported by T*he Wall Street Journal*, is generally positive. Of the analysts covering the stock, four say it's a buy, two say it's overweight, and one says it's a hold. This means that positive analyst sentiment outweighs negative. The average analyst target price for Spin Master is $63.71, compared to the $52.32 the stock traded for at the time of this writing.

A reasonable valuation

Spin Master had a trailing P/E of 33.32 and a projected forward P/E of 25.77 at the time of this writing. These numbers may seem high, but remember that the company's revenue is growing at 25% year-over-year. For a stock with such steady revenue growth, high P/E ratios may not indicate an overvalued situation.

Bottom line

Spin Master is not Canada's best-known tech stock. But in terms of ROE and sales growth, it may just be one of the strongest.

To be sure, this stock has some weaknesses. It's priced relatively high against earnings and extremely high against book value. It doesn't pay a dividend. Some of its financial metrics–such as its profit margin–aren't exactly amazing. But overall, it's a company with rapidly growing sales that has delivered superior returns over the past five year, and there are no indications that it will stop rewarding shareholders in the foreseeable future.

My advice is for more short-term investors to strongly consider Spin Master. I'd advise "buy and hold" investors to stay away, mainly because the toy industry has an uncertain future because of the growing popularity of online children's entertainment.

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