



Should You Bet on This Toy Stock Getting Back to All-Time Highs?

Description

Late last year, I'd discussed the prospects for [two struggling Canadian retailers](#). These companies were equipped to weather the worst of the so-called "retail apocalypse," but changing conditions in the late part of this decade are creating headwinds. For toy companies, the struggle has been readily apparent for over a decade.

In March 2018, Toys "R" Us announced that it would [close all stores](#) in the United States and Britain. **Mattel**, the second-largest toy maker in the world by revenue, has seen its stock plunge 55% over the past three years. However, shares have increased over 40% in 2019 so far. The company has struggled with North American sales but recently reported a better-than-expected fourth quarter. **Hasbro** has faced similar challenges, but its stock has also started off well this year.

Will **Spin Master** ([TSX:TOY](#)) continue on the same trajectory in 2019? The Toronto-based toy and entertainment company has seen its stock rise 3.3% in 2019 as of close on March 11. However, shares are still down 30% year over year.

Spin Master released its fourth-quarter and full-year results for 2018 on March 6. The company made specific reference to the disruption on the industry caused by the bankruptcy of Toys "R" Us. Still, Spin Master managed to deliver growth in gross product sales and adjusted EBITDA for the full year.

In the fourth quarter, the company reported revenue of \$414.3 million, which was down 6% from the prior year. Gross product sales fell 9.3% in North America but posted growth in Europe and the rest of the world. Adjusted net income in Q4 2018 fell to \$6.1 million, or \$0.06 per diluted share, compared to \$25.5 million, or \$0.25 per diluted share, in the previous year.

For the full year, revenue climbed 5.2% from 2017 to \$1.63 billion. Total gross product sales increased 3.1% year over year to \$1.70 billion, as the company reported 2.2% growth in Europe and 19.5% sales growth in the rest of the world. Growth in product sales was muted in North America at 0.2%. Adjusted net income still fell 5.5% from the prior year to \$163.5 million, or \$1.60 per diluted share.

Spin Master is projecting the grow gross product sales in the low single-digit range in comparison to 2018. The company expects a weak Q1 2019, as the absence of Toys "R" Us will weigh on sales. The

later timing of Easter is also forecast to be a negative factor. However, the company expects to deliver adjusted EBITDA margin for the full year in line with 2018.

Is Spin Master a good addition to your portfolio today? Currently the stock is trading at the low end of its 52-week range. Shares boast an RSI of 36, which puts it in oversold territory as of close on March 11. Taking this into account, Spin Master is a worthwhile bet following its post-earnings dip.

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