A Severely Undervalued Stock to Help You Retire Rich

Description

There are undervalued stocks, and then there are *severely* undervalued stock. Value investors pursue the former and the latter, but only deep-value investors pursue the latter. Before we get into the severely undervalued stocks in this piece, it's vital that you understand the inherent risks that come with deep-value investing.

Similar to discovering the elusive small- or mid-cap growth gems in the depths of the **TSX Venture Exchange**, finding a severely undervalued, deep-value opportunity requires digging – a lot of digging, and a ton of due diligence.

Why?

Value traps. They're like wolves in sheep's clothing. The further down into deep-value territory you go, the harder it becomes to distinguish the opportunities from the potential pitfalls. The best approach, I believe, is to take a bottoms-up approach to analysis, whereby one starts with a company of interest, checks the balance sheet, recognizes financial strength, and gradually works their way up to the industry environment and how the company under question stacks up against the competition.

Value traps are the bane of rookie value investors. Nine times out of 10, such value traps have fallen from grace and have either suffered a considerable deterioration to their financial health due to an inadequate capital structure and management practices or have gone down due to stunted growth. In any case, it's essential that investors keep asking themselves questions to avoid being the one left holding the bag.

Without further ado, consider **Spin Master** (TSX:TOY), a severely beaten-down toy stock that I believe is experiencing a temporary bout of huge weakness at the industry level. The stock has been falling into a tailspin for nearly a year now thanks primarily to the bankruptcy of U.S.-based Toys "R" Us locations.

The stock lost over 40% of its value from peak to trough, and after a shortlived rally that was quickly surrendered to an abysmal quarter, shares are currently off 35% from the high.

What went wrong?

The Toys "R" Us headwind that seemed to be already baked into shares took its toll on the fourth-quarter results. The company clocked in $0.11 diluted per share, down from $0.20 posted over the same period last year. Revenue also came up short at US$414.3 million, down from US$440.9 from Q4 2017. Analysts' expectations were missed by a country mile and shares immediately sold-off double-digits on the release.

There's no sugar-coating it; the quarter was abysmal. And although it was tough to find any bright points in the quarter, I thought the 10% single-day plunge was blown completely out of proportion, especially when you consider how cheap the stock already was and that everybody knew what the void left by Toys "R" Us would entail. Yes, it was a big miss, but I thought the quarter warranted a 5% drop, not a ridiculous 10% plunge.

The stock is pretty darn cheap, the bar has been lowered substantially, and with a number of catalysts on the horizon, I think prudent growth investors would be wise to back up the truck on shares before the bargain-basement price comes to a close. Indeed, the "perfect storm" of macro and industry-wide headwinds has hit Spin Master, and that's precisely why I like the stock because both elements of the storm are temporary.

The balance sheet is solid, and the company is going to get pretty active on the M&A front in the coming year. With a proven track record of unlocking synergies through M&A and a pipeline that's going to be kept full, I think the stock is ridiculously undervalued relative to the growth that's to be expected. Now is the time to hit that buy button before the stock corrects upward to the $50s.

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Author
joefrenette