The TOY Story: This Is Why You Should Stay Away From This Stock

Description

The fun was snuffed out of **Spin Master** (TSX:TOY) last week following a disheartening fourth-quarter earnings report. Investors were enveloped by fear when the company confirmed that the toy industry is spinning from a major tremor and that the aftershocks will linger for a while.

The collapse and eventual closure of Toys "R" Us are tragic and brought down the collective performance of the global players. Many are wondering if Spin Master can "wow" the consumers again and bring back the happy times to investors. Some are even inferring it's the beginning of the end for the Canadian toy stock.

Fourth-quarter tailspin

Spin Master was both candid and blunt during the earnings call last March 6. The top brass of the $4 billion, Toronto-based children's entertainment company admitted that business suffered a heavy hit.

Revenue declined by 6% to US$414.3 million during the fourth quarter of 2018 compared to the same period in 2017. Net income dropped by 76.19% from US$25.5 million to US$6 million. On a full-year basis, the company did not close in the red. Revenue rose 5.2%, while net income fell by 3.82%.

President and COO Ben Gadbois said, "Our performance in a challenging year has demonstrated that our focus and our strong execution against our four key growth strategies have positioned Spin Master for long-term success."

The Spin Master's COO is still in a state of shock but expressed impatience. He told financial analysts that the industry is taking too long to normalize.

Charting a new course

Toys "R" Us left a huge void in the US$21 billion industry. But toys are eternal joys. The toy makers and retailers shouldn't feel orphaned. Instead, these toy enterprises could seize the opportunity to capture a larger market share.

Spin Master sees the disruption lasting until mid-year. After which, solid growth will ensue throughout the remainder of 2019. Spin Master's chairman and Co-CEO Ronnen Harary sounded confident that the situation will be better for the company.

He said, "Our 2019 product and entertainment offering displays the innovation and creativity that our customers have come to expect from Spin Master. We expect growth in 2019 to be based on a mix of proven licenses such as *Monster Jam* and *How to Train your Dragon*." Also, customer response to the company's 2019 line is encouraging. The *PAW Patrol* and *Abby Hatcher* shows are ranking first and second in the pre-school space.

No fun, no gain

This time last year, Spin Master was a high flyer on the TSX. The stock was doing $56.83 before peaking to $58.90 in July. As of this writing, the toy company is trading at $39.66, or +3.30% higher than the year-end bargain price of $38.39.

The departure of Toys "R" Us from centre stage is a retail disruption of gigantic proportions. No matter how Spin Master tries to create or weave a story about a brighter outlook, investors are better off checking other leisure stocks in the meantime.

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Date

2025/08/28
Date Created
2019/03/15
Author
cliew