Alert: This TSX Dog Is a Top Pick for May

Description

Spin Master (TSX:TOY) stock was a massive disappointment last year with shares getting pummeled 40% from peak to trough. Most of the damage was thanks to the huge void that was left in the toy industry following the bankruptcy of U.S.-based Toys "R" Us stores. Indeed, the entire toy industry was left in shambles once debt got the better of Toys "R" Us, and unfortunately for many toy companies, it's been a difficult and slow process to fill in the gap.

As one of the fastest-rising stars in the toy industry, Spin Master was ready to take share away from the incumbent toy makers, but unfortunately, the Toys "R" Us bankruptcy stopped the up-and-comer right in its tracks. And with an e-commerce platform that's not yet up to par, a considerable chunk of sales went bye-bye due to reasons that were entirely out of management's control.

Although it's easy to turn the page on Spin Master because of the transitory industry-wide issues that could last another year, it'd be foolish (that's a lower-case *f*) to underestimate the long-term growth story which is still intact. Management has kept its product pipeline full, the balance sheet is in pristine condition, opening the possibility of further acquisitions, and, best of all, the stock is the cheapest it's been in recent memory.

The company recently clocked in a weak fourth-quarter that missed the mark of analysts. Adjusted EBITDA was $35 million — $3 million short of the consensus, thanks to markdowns from liquidations going at Toys "R" Us. Now that the Toys "R" Us concerns have had a chance to bake into shares, I believe the bar has been set very low and given the international expansion opportunity; I see Spin Master pole-vaulting over expectations as its sales look to get back on the right track.

Moreover, given Spin Master's track record of creative, innovative new toys, with a tonne of innovation awards now under its bet, I wouldn't be surprised if the company had another blockbuster toy like Hatchimals up its sleeves. In any case, I think investors are overly pessimistic on Spin Master and the dire state of the toy industry.

At the time of writing, the stock trades at 18.2 times next year's expected earnings, which is quite cheap when you consider the 22.9% in average annual revenue growth posted over the last three years. Sure, 2018 was a quarter to forget, but it was essentially a worst-case scenario for the industry, and from here on out, I see Spin Master getting back on the road to recovery.

Even though the impact of the Toys “R” Us bankruptcy will still be felt in upcoming quarters, it’s important to remember that the pressures are already baked into analyst projections. Should Spin Master re-gain its momentum as some of its peers already have, I see the potential for a huge upside surprise.

For those with enough patience to ride out the temporary industry pressures, I believe Spin Master is a compelling turnaround candidate with a desirable risk/reward trade-off. The industry headwinds will eventually fade, and as they do, Spin Master could seriously come roaring out of the gate.

Stay hungry. Stay Foolish.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:TOY (Spin Master)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

Tags

1. Editor's Choice

Date
2025/07/04
Date Created
2019/04/29
Author
joefrenette