This Severely Undervalued TSX Index Growth Stock Is Ready to Take Off

Description

Sometimes Mr. Market misprices stocks by so much that it's actually embarrassing.

We Fools know that when it comes to TSX-traded securities, Mr. Market isn't at all efficient. He can have a negative bias most of the time given the less-than-sanguine outlook of the Canadian economy and geopolitical uncertainties that call for hefty discounts.

One such stock that's embarrassingly undervalued and is ripe for a correction to the upside (a sharp rally or the opposite of a correction) is **Spin Master** (TSX:TOY), a battered toy stock that's been ditched to the curb by most investors who remain pessimistic on the toy industry's outlook following the fall of Toys "R" Us around a year ago.

Yes, the closure of U.S.-based Toys "R" Us locations left a massive void in the American toy market, and nothing as impressive has since stepped in to fill the void (other than big department stores and digital retailers), but I think the whole fiasco has been blown entirely out of proportion, especially when it comes to Spin Master.

A misunderstood business

Why am I so bullish on Spin Master?

As far as I'm concerned, it's the most innovative toy company in recent memory. It's not just a force to be reckoned with in Canada; it's making noise at the global level with its robust portfolio of brands, including Hatchimals, Paw Patrol, and the like, as well as its encouraging pipeline of new toys, which could yield the next big blockbuster that could send TOY shares skyrocketing.

It's not just about the "upside surprise" from something coming out of Spin Master's pipeline that has me pounding the table, though. It's the incredible ecosystem that's been created over time. Paw Patrol isn't just a brand of toys; it's grown into so much more with its animated television series, video games, and other branded merchandise. The brand has high user engagement, and I believe many analysts are discounting the stability of Spin Master's "stickier" brands. In a way, Spin Master looks to be creating an engaging ecosystem as **Apple** has over the years.

Moreover, Spin Master doesn't solely depend on licensing of third-party brands. The company would be thriving on its own, with its intellectual property and the higher margins that go along with it.

Toys "R" Us kids rejoice!

Back to Toys "R" Us. The iconic retailer is reportedly staging a comeback with stores slated to open in the U.S. as soon as 2019. The new Toys "R" Us will probably be way better than the old Toys "R" Us that we've all grown to know and love.

As we head into the latter part of the year, I see Toys "R" Us's return from the dead as a boon for the entire toy industry. While it will take time to fully fill the void, I am incredibly bullish on the new trajectory and believe shares of Spin Master ought to be rallying more in response to the encouraging news.

Foolish takeaway

Today, the stock trades at just 1.93 times sales and 19.2 times next year's expected earnings with an 11.58 EV/EBITDA. That's a bargain when you consider the double-digit earnings-growth potential and the likelihood that the industry bottom is in with Toys "R" Us on the rebound. In addition, TOY stock is flirting with a strong level technical level of support at around $37. I don't know about you, but with all this in consideration, I sense a rally.

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Date
2025/08/27
Date Created
2019/06/25
Author
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