A Canada Day Bargain: A 52-Week Loser to Buy Right Now

Description

What's the difference between chasing a falling knife and bagging a bargain at its 52-week lows?

It depends on the amount of negative momentum.

In any case, investors should be ready for a bit of short-term pain if they're planning on buying shares of a company that's trading near its 52-week lows. A 52-week loser that's seemingly formed a bottom could turn into a falling knife without a moment's notice. So, investors should be prepared to either buy more shares at a lower price or be ready to hang on for dear life should Mr. Market decide to pull the rug from underneath your feet.

The ultimate goal of buying a 52-week loser is realizing a sizeable margin of safety, which is the discount between a stock's intrinsic value and its market value, which is substantially lower. In many cases, a 52-week loser deserves to be punished, leaving little to no margin of safety to be had for the bargain hunters and cigar-butt investors who're keen on bottom-fishing.

Digging for bargains can be just as risky as buying sexy stocks at frothy valuations, so investors ought to ensure proper due diligence prior to pulling the trigger on a stock to avoid a scenario where one would be tempted to lock-in a loss.

Here's just one 52-week loser that I believe is trading at a discount to its intrinsic value and should be scooped up by those looking for deep value:

Enter **Spin Master** (TSX:TOY), a global toy and children's entertainment company that's been treading water over the past year thanks in part to the toy industry void that was left after the bankruptcy of U.S.-based Toys "R" Us locations.

Although you wouldn't be able to tell from the stock, which is currently down 35% from its high at writing, Spin Master has been doing a lot of things right at the company-specific level. Management has been innovating, building upon its ecosystem of powerful brands (like Paw Patrol and Hatchimals) and bolstering its direct distribution channel to prop up sales in international markets like China.

With a healthy balance sheet and enough dry powder (over $110 million in net cash) to pursue further acquisitions, I see ample opportunity to pay a dime to get a dollar as other toy producers struggle to cope with the exiting of Toys “R” Us locations from the U.S. market.

With Toys “R” Us slated to return from the dead as early as this year, I see tremendous rebound potential for Spin Master, a misunderstood company that can’t seem to catch a break.

At this juncture, it appears that the U.S. toy retail void left by Toys “R” Us will be filled by none other than Toys “R” Us with its revamped business. Add the potential for a peaceful resolution to the China-U.S. trade spat, and I see Spin Master as one of the best risk-reward trade-offs on the entire **TSX.**

Over the next year, I wouldn’t rule out a rebound to and potentially past all-time highs. Could $60 per share (58% upside from today’s levels) Spin Master be in the cards by summer 2020? I wouldn’t rule it out.

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