Alert: This Severely Undervalued TSX Growth King Could Double

Description

There are cheap stocks, extremely cheap stocks, and then there's the stock of **Spin Master** (TSX:TOY), which, when compared to its growth potential is so unfathomably cheap that I think it's the epitome of a value investment that shows the sheer inefficiency of the Canadian stock market.

For those new to the concept of "market efficiency," it's essentially a gauge of how well the market prices securities relative to the intrinsic value of the underlying business. In an efficient market, stocks are priced within a small range of its intrinsic value, essentially making stock picking an unworthy endeavour relative to passive investing with plain vanilla index funds.

Many academics agree that markets within developed countries are pretty efficient. But if this were the case, we wouldn't see multiple corrections per year as we witnessed in 2018. and we certainly wouldn't have folks like Warren Buffett who've been crushing the markets over time.

With the rise of passive investment instruments, stock movements are now more exaggerated at both ends of the spectrum. This increase in volatility leads to more opportunities for those contrarians who are able to put in the homework, but it also means that the strength of such investors will need to be stronger to realize those excess risk-adjusted returns.

Back to Spin Master, the fast-growing toy company has been battered badly following the U.S. bankruptcy of Toys "R" Us locations, a development that has left a temporary dent in the armour of Spin Master. Although the encouraging announcement that Toys "R" Us stores will be re-opening in the states as soon as this year, Spin Master has failed to pick up any traction.

The mid-cap stock is a dud and probably won't garner any momentum until the reveal of a quarter that surprises to the upside. It'll take time for Toys "R" Us to refill the void it left behind in the toy industry, but for those with a time horizon beyond three years, there appears to be significant upside with toy stocks — Spin Master in particular, which looks to be the best value at this juncture.

In a prior piece, I noted that Spin Master is still doing quite well at the company-specific level and that the severe undervaluation in shares was unwarranted. At the time of writing, Spin Master stock trades at 18.5 times next year's expected earnings, which while cheap based on the growth you're getting, isn't exactly what you'd consider "severely undervalued."

With an EV/EBITDA of 11.1, however, Spin Master not only seems cheap, but it also appears to be significantly discounted relative to its intrinsic value, leading me to believe that there's a wide margin of safety to be had at $38 and change.

Spin Master is doing a lot of things right, but negative exogenous factors have taken their toll on its stock. As the industry landscape gradually improves, I see an opportunity for outsized returns in store for those with the patience to hold the name for three years or so.

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