



TFSA Investors: This 1 Stock Is a Must-Buy

Description

What child doesn't love toys?

Toys are an integral part of a child's experience and determine the friends they make, how happy they are, and their interests.

With the recent purchase of Toys 'R' Us by **Fairfax Financial Holdings**, investors are right to be worried about the future of the toy industry, as technology has ingratiated itself with society and devices such as mobile phones come with an equal level of entertainment to toys.

That being said, **Spin Master** ([TSX:TOY](#)) is one of a kind and worth the investment.

Several years ago, I attended a conference where the CEO of Spin Master Ronnen Harary made a speech. What stuck out to me was when he mentioned that toys are not threatened by technology because nothing can replace the physical nature of a toy.

As I'm researching Spin Master, the facts support this statement, with revenues increasing every year from \$716 million in FY 2014 to \$1.6 billion in FY 2018.

Spin Master is unique due to its [diversification](#) and increasing net incomes.

Diversification

For those of you not familiar with Spin Master, it is the genius behind Paw Patrol, Bakugan, and Hatchimals, just to name a few. The company makes toys for boys and girls in a variety of age groups and for different occasions.

One example of how this diversification benefits the company is seen with the second-quarter 2019 results. Despite gross product sales (GPS) decreasing in four of five categories, Spin Master finished the second quarter with GPS up 6.9% due to an exceptional performance in its Boys Action and High-Tech Construction segment, which grew by 202.3%.

This diversification is also beneficial, as toys are trendy, which means it is relatively insulated from changes in children's preferences, as the company has a wide variety of toys to offer. A company that is not well diversified could expose itself to massive losses, as all of its revenue is derived from a few products.

Increasing net income

Spin Master is highly [effective in generating net income](#), which has increased from \$52 million in FY 2014 to \$155 million in FY 2018.

Accumulated net income is \$511 million for the five years, which is amazing. With revenue increasing at a compounded annual growth rate of 11.45%, it is very likely that net income will continue to grow.

With the company paying off \$453 million of debt in the past five years, an increasing percentage of revenues will trickle down into net income, as the outstanding debt amount decreases.

Bottom line

Although Spin Master operates in a very precarious industry, which is subject to fluctuations based on the economy, the company is still a good investment based on its diversification and increasing net income.

Spin Master produces a variety of toys for a variety of ages and occasions. This shields it from changes in consumer trends, as it produces so many different products that there is likely something for everyone.

The company also does a good job in growing its bottom line with net income increasing from \$52 million in FY 2014 to \$155 million in FY 2018. As the company continues to grow and pay off its debt, there is a good chance this number will continue to grow, which ultimately drives the stock price.

Spin Master is a solid investment with great growth potential.

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