A Top Hyper-Growth Stock That's Just Getting Started

Description

Spin Master (TSX:TOY) has fallen into a tailspin with shares shedding 40% of their value from peak to trough. Now that the stock has had a chance to settle down, it looks attractive through the eyes of a trader who values the technicals more than we value investors do.

The troubled toy company looks to have formed a triple-bottom pattern, which bodes well for investors going into the last quarter of the year. While the technicals are indeed encouraging, as you may know, the Motley Fool is big into the fundamentals. And on that front, Spin Master still looks like a winner that's been overly beaten up.

You see, the primary author of Spin Master's pain has been the U.S. bankruptcy of Toys "R" Us locations. While the entire toy industry got shook by the unexpected downfall of one of the most beloved brick-and-mortar retailers, Spin Master had done a better job of weathering the storm than most analysts would give it credit for.

Moreover, Toys "R" Us is making a big comeback to fill the void it left behind in the brick-and-mortar toy scene. Countless physical retailers have proven that brick-and-mortar retail can co-exist with their digital counterparts. And as Toys "R" Us beefs up its physical and digital presence, I expect Spin Master could be one of the biggest beneficiaries.

Innovation is the name of the game for Spin Master, with creative new toys coming out of the pipeline on a somewhat regular basis. Unlike most other toy companies that treat licensed toys as a crutch due to their inability to create new IP, a majority of Spin Master's moat is built from original brands and content.

Since the bankruptcy of Toys "R" Us took such a toll on Spin Master shares, you would think that news of the retailer's return from the dead would result in a correction to the upside. Unfortunately, since Spin Master is a little-known mid-cap, many investors have slept on the name, despite the more promising path that lies on the horizon.

That's an opportunity for value-conscious investors who see Spin Master as more than just another toy company. It's a red-hot growth play that could become very active on the M&A front over the next year and beyond. With plenty of dry powder on the sidelines, one can expect the toy giant to unlock additional value for long-term shareholders in the form of synergies.

The company recently released some solid second-quarter results with better-than-expected margins together with a reaffirmation of its full-year guidance and a sneak peek into new toys that'll be ready for this holiday season.

Spin Master is a strong buy at these levels. The stock trades at 20 times next year's expected earnings, but recent insight on new products gives me confidence that the company is capable of scoring exceptionally high double-digit top- and bottom-line numbers, as industry headwinds turn into tailwinds.

The Toys "R" Us bankruptcy was a significant drag on the stock, but as it makes a comeback, it'll be the best version of itself ever. And that's good news for Canada's most innovative toy company.

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