



A Top Canadian Growth Stock for 2020 and Beyond

Description

Boy, oh boy, this toy is destroyed ... or is it?

Spin Master ([TSX:TOY](#)) stock fell as much as nearly 20% yesterday, but it was saved by a strong support. It bounced 18% from \$30 to \$35 and change per share by the stock market close — essentially ending the day 5% in the red.

However, the [growth stock](#) may not be out of the woods yet.

What caused the horrific drop was that the company essentially gave a warning about its Q4 and full-year 2019 results. Some investors expected some sort of rally from the toy company's holiday sales, but the rally dissipated rather quickly (if you could call it one).

In December, the stock popped above \$41 per share before revisiting lower levels as its price action weakened. Yesterday, the stock opened at \$30 before it was briskly bid up more than 8% in merely five minutes. Therefore, \$30 per share acted as a major support.

The warning

In the press release, Spin Master stated that it now expects to report a worse gross product sales decline of 1% for 2019 against 2018. Notably, that would still outperform the estimated U.S. toy industry decline of 2% to 4%.

It would not come as a surprise if Spin Master does better than its peers, because it has been a leader in innovation and a better prospect for growth.

Unfortunately, the novelty in Hatchimals (which was initially released in October 2016) and related products (such as HatchiBabies) has died off — along with it as well, the strength of the stock.

Sales of Hatchimals largely drove the +60% rally in the stock between late 2016 and early 2018. Spin Master noted that “excluding sales of Hatchimals products, which declined over US\$230 million year

over year, gross product sales for 2019 rose approximately 16% over 2018”.

The results suggest that Hatchimals was too great a record to beat. And it'll be up to the company to come up with the next popular toy.

Can Spin Master come up with the next big hit?

Spin Master has a track record of innovation and awards. Since 2000, it has received 103 Toy Industry Association Toy of the Year nominations with 30 wins across a range of product categories, including 13 Toy of the Year nominations for Innovative Toy of the Year. Some of its best-known, award-winning brands include Air Hogs, Bakugan, Erector, Hatchimals, PAW Patrol, and Zoomer.

It'll only be a matter of time before the company comes up with the next big hit of a toy brand. Spin Master has six internal research and development centres and sources 3,000 ideas from global inventors every year but, under its super stringent process, only 1-2% reach commercialization.

Moreover, Spin Master is more than a toy company. It also produces entertainment series, including the award-winning *PAW Patrol*, for kids around the globe. Additionally, after making strategic acquisitions in Toca Boca and Sago Mini in 2016, it's been involved with app development.

Investor takeaway

Spin Master is the best children's entertainment company that investors can get their hands on. Its temporary setback has weighed the stock down to roughly \$35.50 per share. This is a discounted forward price-to-earnings ratio (of 16.9) to pay for the long-term rebound in the business and stock.

At the very least, investors who have confidence in Spin Master's management should grab a starter position in the stock.

If Spin Master does its mojo again, the [growth stock](#) can get back to the \$46 level for roughly 30% gains over the next year or two.

Conservative investors should wait for the company to report its actual Q4 and full-year 2019 financial results after markets close on March 4 before making a decision.

CATEGORY

1. Investing
2. Stocks for Beginners

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:TOY (Spin Master)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Investing
2. Stocks for Beginners

Tags

1. Editor's Choice

Date

2025/07/30

Date Created

2020/01/22

Author

kayng

default watermark

default watermark