1 Canadian-Grown Growth Stock: Buy on Bad News

Description

Spin Master (TSX:TOY), headquartered in Toronto, was a darling from its initial public offering in the summer of 2015 up to the summer of 2018, during which the stock was a three-bagger, appreciating 222% from $18 to $58 per share.

We won't know Spin Master's Q4 and holiday sale results until management reports it, along with the full-year 2019 results, on March 4 after the market closes.

The results aren't expected to be pretty. Management gave a warning about it in January. It expected gross product sales to decline 1% year over year. However, that would still outperform the estimated U.S. toy industry's decline of 2-4%.

Here are some reasons for Spin Master's bad performance in 2019.

The Toys"R"Us bankruptcy

The toy industry got a big blow from the Toys"R"Us bankruptcy in the United States. However, Spin Master has been able to withstand it better as a leader in innovation and as a smaller company that's more agile and flexible.

Spin Master has been able to invest for higher returns — no doubt due to its ability to buy smaller acquisitions that make a meaningful impact. In the trailing 12 months, its return on invested capital was 11.7% compared to **Hasbro's** 9% and **Mattel's** -1.7%.

Kids lost interest in Hatchimals

Hatchimals was a hit when it was first released in October 2016. Hatchimals sales largely drove the more than 60% rally in the growth 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."

Later, Spin Master also created spinoff products, such as HatchiBabies. But the novelty of the toys and the children's interest have died off. In the process, a great deal of damage has been done to the stock, as multiples contracted, and it tumbled 45% from a $58-per-share high.

Hatchimals was too great a record to beat last year. Shareholders must have faith that Spin Master can come up with the next big hit of a toy.

Spin Master has a track record of success

Spin Master has won many awards. Since 2000, it has received 110 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.

The company 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.

I believe it's only a matter of time before Spin Master will come up with the next popular toy. When that happens, the unloved stock will turn into a growth stock again.

Senior leadership changes

Earlier this week, Spin Master announced some senior leadership changes: Ben Gadbois, global president, COO, and board director, as well as Bill Hess, executive vice president, global operations and chief information officer, left the company.

This triggered some unease among investors, who caused a 4% selloff. However, I don't think it's necessarily a bad thing for the company to have changes, including appointing Paul Blom as the interim executive vice president, global operations and technology and Tara Deakin as executive vice president, human resources, and chief people officer.

Where the stock stands today

At $31.70 per share at writing, Spin Master trades at a reasonable 2020 estimated price-to-earnings ratio of about 19.2. Analysts have an average 12-month price target of about $39 on the stock, which represents near-term upside potential of 23%.

It'd be more prudent to wait for Spin Master's 2019 results in March before buying shares. The stock has strong support at $30 per share, which it can revisit if the results are really bad. Additionally, there may not be a catalyst to turn the stock around until the next holiday season.

Interested investors are best buying into the stock with an investment horizon of at least three to five years to give the company time to come up with the next popular toy.

There are also other stocks with excellent upside potential.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:TOY (Spin Master)

PARTNER-FEEDS

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

Category

1. Investing

Date
2025/07/30
Date Created
2020/02/20
Author
kayng