



Why This Canadian Stock Plunged 40% Last Week

Description

It has been a terrible couple of weeks for stock investors. As of writing, the **S&P/TSX Composite Index** is down 2.99% year to date. However, there is one TSX stock that plunged 39.34% in a single day.

That stock is **Spin Master** ([TSX:TOY](#)). By the end of trading on Thursday, the day after the company provided weak guidance and received an unwelcome analyst downgrade, the stock had plummeted to \$17.78.

Latest quarterly earnings release disappoints investors

For the fourth quarter and the year ended December 31, 2019, the company reported a net loss of US\$17.2 million, or US\$.17 per share, compared to last year's net income of US\$11.4 million, or earnings per share of US\$0.11.

This dramatic loss and the company's weak outlook prompted D.A. Davidson, one of the 10 analysts covering Spin Master, to downgrade the stock. The analyst downgraded Spin Master to 'underperform' from 'buy', and cut its price target to \$15 from \$20.

Spin Master's co-CEO Ronnen Harary said "Our overall performance in the fourth quarter and for 2019 was disappointing. Despite the solid performance of several of our brands and franchises, we were unable to fully offset the year over year decline in Hatchimals sales. Furthermore, we did not execute at the level needed to meet our profitability targets."

Although the company's revenue increased 14.3% to US\$473.5 million, the declining sales in Spin Master's Hatchimals line offset any gains from other products. Strong sales were reported in a few areas including boys action and construction, games and puzzles, and plush and pre-school and girls segments. Gross product sales increased 18.3% to US\$550.7 million, up from US\$465.5 million.

A dramatic turn for the worse

It was only last summer that things were looking up for the company. The day after a [strong earnings release in July 2019](#), the stock jumped as much as 14%. Investors were pleased that the company had successfully integrated major acquisitions into its growing line of toys.

Investors were also pleased that Spin Master had appeared to have successfully overcome two challenges. First, the aftermath of the Toys R Us bankruptcy, and second, the rapid decrease in the popularity of the Hatchimals line of toys.

When Toys R Us announced its bankruptcy filing in 2017, the toy industry entered one of its most destructive and challenging periods. The majority of the Toys R Us inventory sold through the end of June 2018.

Spin Master's Hatchimals products line exploded in popularity in 2017 and become one of the most successful product launches in the company's history. The fad, however, did not transform into long-term popularity, and sales of the product declined significantly in 2019 after two years of robust sales.

When earnings were released in July 2019, it appeared that the drop off sales of Hatchimals had been accounted for. However, it's clear from this latest earnings release that this once-popular line of toys continues to haunt the company.

The bottom line

It takes a strong stomach to be an investor in Spin Master, as history shows that surprises in the company's earnings releases have the ability to dramatically swing the stock. As of writing, the stock is down over 50% year to date.

CATEGORY

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