Millennials: A High-Upside Stock That Could Double

Description

Young investors like millennials should actively take on risks to get a better shot at higher rewards. Investing like one's Baby Boomer or Gen X parents is a way to come up short in retirement, so seeking volatile, high-upside stocks is a strategy for millennials to get behind, especially since they have time on their side.

As a millennial, you have the ability to take on more risk, but you also need the willingness to take on said risks. Many young investors who are just getting started investing have been confusing value investing with speculating on cigar butts of late, as demonstrated by the large number of speculative bets on firms, such as the airlines, that could be at high risk of insolvency.

High-upside investments versus high-upside speculations

While you should seek to bet on "high-risk/high-reward" investments, you should avoid the urge to speculate on businesses or industries that you either don't understand or are hard for you to value given the market environment. The coronavirus pandemic has caused many sound investments to turn into speculative gambles. As such, it's only prudent for investors of all ages to understand the differences between investment and speculation, so that they can avoid the latter in their pursuit of high-upside opportunities in this uncertain market.

In the age of the coronavirus, it's become of utmost importance to study a firm's balance sheet and sustainability of operating cash flows to determine a firm's insolvency risk amid this unprecedented crisis. Believe it or not, you don't need to bet on firms that have an above-average risk of going belly up to make big bucks in a reversal of momentum or an upside correction.

A high-upside stock that won't become a zero

Consider shares of **Spin Master** (TSX:TOY), a heavily out-of-favour toy maker that could grow after this pandemic. The company's operating cash flows may be at risk of wild swings due to the coronavirus, but the rock-solid balance sheet is more than enough to weather the storm for the entirety of this pandemic.

Despite robust liquidity and solvency metrics (1.13 and 1.43 quick and current ratios alongside a low debt-to-equity ratio), TOY stock has remained under pressure, with shares losing over 80% of their value from the 2018 peak to the 2020 trough. Shares of the ailing toy maker have since partially recovered, but the stock remains a country mile (over 60%) below its highs and is trading at a valuation that I view as unsustainably low given the calibre of business you're getting.

Millennials are getting a lot of value for the price

In addition to the firm's terrific financial flexibility, the company also boasts an impressive portfolio of toy brands (Hatchimals, Air Hogs, Gund, Bakugan, Paw Patrol, among others), and a management team that knows how to innovate. While management has dropped the ball with questionable judgement with regards to operations in the past, recent changes in upper management should give the firm the operational leadership it needs to take it to the next level.

Moreover, management's past success with hit toys such as Hatchimals leaves Spin's stock price subject to potential upside surprises.

With the stock trading at 2.3 times book and 1.1 times sales. For millennial investors, I'd look to back up the truck on the name today before it rises out of this pandemic stronger than ever. The company is capable of growing its revenues at a double-digit rate, as ROIC numbers look to recover after one of the worst operationally disruptive exogenous typhoons ever.

Foolish takeaway

You don't need to risk your shirt for outsized upside.

For millennials seeking a potential double, Spin is the name to bet on. It's not at risk of insolvency with its Fort-Knox-like balance sheet, it has a "moaty" brand portfolio, an improving management team, and is capable of surprising to the upside with a pipeline full of compelling new toys.

Spin stock is also close to the cheapest it's ever been and is a worthy deep-value bet that could correct to the upside, as pandemic pressures subside.

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