Undervalued: This Mid-Cap Just Rocketed 170% and it’s Still Dirt Cheap!

Description

Shares of undervalued **Spin Master** (TSX:TOY) surged 17.2% on Thursday, bringing TOY stock up a whopping 170% from its March lows. The sudden surge came a day after the company clocked in its second-quarter results, which saw an adjusted loss of $0.09 per share, which is far better than the $0.17 loss that analysts on the street were expecting. The Q2 results were brutal. There’s no sugar-coating the numbers (quarterly revenue plunged over 12%), but a beat is a beat.

The horrid tailspin is now in the rear-view mirror

The Canadian toy maker had its fair share of operational hiccups and industry headwinds before the pandemic. When COVID-19 finally struck, the stock fell into a tailspin that saw the stock drop over 80% from peak to trough. Despite nearly tripling over the course of months, shares remain a country mile below all-time highs, and shares still look severely undervalued based on traditional valuation metrics and the firm’s ability to bounce back from this unprecedented hailstorm.

There’s no question that the pandemic has compounded headwinds facing the toy industry. And while COVID-19 could linger on for years, I still think there’s substantial value to be had in the stock, even with the bear-case scenario in mind. The “messy” distribution centre realignment is slowly but surely getting better. As shuttered retailers reopen their doors alongside the broader economy, subtle top-line improvements could be enough to be a major needle mover for battered shares of Spin Master.

Should you take the undervalued toy maker for a spin today?

As long as you’re comfortable with excessive volatility (think double-digit percentage moves on any given day), Spin looks like a must-buy for any long-term, young investor’s portfolio. The company has an outstanding liquidity position relative to most other small- and mid-cap companies.

Even if the pandemic were to drag on for longer than expected, Spin Master has deep enough pockets not only to survive, but it also may have an option to acquire a distressed firm in the toy industry at a hefty bargain amid the turmoil. Spin Master stock sports an impressive 1.43 current ratio and a belowaverage 0.60 debt-to-equity ratio. The company has a Fort Knox-like balance sheet, with plenty of dry powder, a lack of long-term debt, and an incredible growing roster of high-quality assets.

Undervalued: You’re getting a lot for the price you’ll pay

In the meantime, the company will continue feeling the full impact of the COVID-19 crisis. Another wave of shutdowns could erode operating cash flows further. However, if you’ve got a time horizon beyond five years and think a vaccine (and other efforts) can mostly eliminate COVID-19 by 2022, it’s tough to pass on the name at these depressed valuations.

At the time of writing, Spin Master stock trades at 2.9 times book, which is a ridiculously low price to pay for a company that’s positioned to see better days. You won’t be getting a dividend, so there are few incentives to hang onto the stock amid this crisis. But if you’ve got the stomach, now is as good a time as any to scale into a position, especially if you’re on the hunt for a reliable stock that could skyrocket further on the advent of a coronavirus vaccine.

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Date
2025/08/25
Date Created
2020/08/07
Author
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