Why This Canadian Stock Soared +20% Today!

Description

Spin Master (TSX:TOY) stock investors woke up on Tuesday with a pleasant surprise. The Canadian stock gapped up and has been climbing higher. As of writing, the stock has appreciated more than 22%!

The global children's entertainment company just reported its fourth-quarter and full-year 2020 results yesterday after the market closed. The stock price appreciation is reflecting the positivity in the report as well as the fact that the stock was previously depressed from pandemic impacts.

During the pandemic, toys, which made up most of Spin Master's revenues, were the last thing on people's shopping lists. Sales and profits plummeted — along with investors' confidence. Many were rightfully scared away. The stock fell to as low as $10 per share, losing approximately 75% of its market cap.

Brave souls who ventured in at *a low* and held on are benefiting from the return of profits to the consumer discretionary company. Anyone who bought at about $20 after the stock settled down somewhat from the pandemic market crash in early 2020 would be sitting on extraordinary gains of +70%.

Q4 and full-year 2020 results

Spin Master highlighted that "Q4 profitability climbed significantly." Specifically, for the quarter, its revenue increased by 3.6% to US$490.6 million.

Its toys portfolio saw an overall decline of 7.1% in gross product sales to US$511.8 million. Activities, Games and Puzzles and Plush, Boys Action and Construction, and Pre-School and Girls segments saw growth in gross product sales that weren't enough to offset the decline in Remote Control and Interactive Characters.

However, management's foresight to acquire global kids mobile digital app brands early on in 2016 helped drive other revenue up significantly by 76.5% to US$56.3 million. Digital games revenue increased by more than 400% to US$31.8 million. Other than digital games, other revenue also includes entertainment and licensing revenue, which was 4.3% lower at US$24.5 million.

Gross profit of US$241 million was 6.6% higher year over year. Spin Master also booked adjusted net income of US$14.6 million versus an adjusted net loss of US$7.8 million a year ago.

Although Spin Master's 2020 revenue was down marginally by 0.7% to US$1.57 billion, its Q4 results signify the pivotal point to a turnaround. The rally in the stock was the market just being happy to see Spin Master's recovery.

Management's expectation for better results in 2021 is also adding fuel to the rocketing stock. Spin Master's latest guidance includes 2021 revenue growth in the mid- to high-single digits and adjusted EBITDA margin to significantly improve over 2020 to be in the mid to high teens.

The Foolish takeaway

As Spin Master stock showed, when investing in consumer discretionary stocks, there's a chance that consumers could choose not to buy from the companies.

Although consumers can choose not to buy from other businesses as well, in comparison to consumer discretionary stocks, consumer staples stocks like **Coca-Cola** should be more defensive in a gloomy economy, for example.

In any case, when consumers are unwilling to spend, the top and bottom lines of consumer discretionary companies can fall significantly, as will their stock prices.

However, when customers return to companies providing quality products/services, their profits will also make a big comeback. Therefore, the best time to buy consumer discretionary stocks is when their stocks have fallen a lot. The bottom line is you need to have high conviction in the underlying businesses. Otherwise, it'd be hard to hold on in times of high uncertainty and volatility.

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