



Today's Top Buy: Spin Master Corp.

Description

Discretionary spending fell significantly following the pandemic-induced economic turmoil. People cut down on discretionary spending. Given the highly discretionary nature of **Spin Master's** ([TSX:TOY](#)) product offering, some investors have steered clear of this name.

However, I think there's the real potential for this stock to be an outperformer coming out of this pandemic.

Here's more on why Spin Master is a top turnaround play right now.

A sharp rise in sales makes investors bullish

The company recently recorded substantial growth in its [digital games segment](#). Revenue in this division increased by more than 400% to a staggering \$31.8 million in the most recent quarter. A key driver? The company's Toca Life World app has been a hit among users. Spin Master has a knack for finding the trendy toys that are "in" each year. The ability for users to share videos of themselves playing this game have caught on. Accordingly, there has been a sharp rise in the number of app downloads, benefiting Spin Master shareholders.

Although users can download this app for free, Spin Master Corp. earns revenue via in-app purchases and upgrades. Indeed, the company believes that the increase in subscribers of Spin Master's Sago Mini kids' app has partly contributed to its top-line growth.

As per company reports, its net income in Q4 was \$300,000. This is a pretty big jump from a net loss of \$17.2 million in the previous year, and investors are taking notice.

Investors remain optimistic about the future

Last year, the company closed down 13 distribution centres in a cost-cutting mission. Additionally, the company reduced its inventory by 28%. Spin Master has done a great job of boosting cash flows by

getting more efficient with its capital allocation. This has been reflected in Spin Master's results. The company announced that it had generated \$124 million worth of free cash flow in the latest quarter and \$230 million for the full year. Also, Spin Master declared that it has the strongest net cash position in history due to its efficient cost-cutting strategy.

For the past year, consumers have been allocating a large portion of their savings to pay off their debt. However, I believe that coming out of the pandemic, they would be looking for other ways to spend that money. Accordingly, discretionary spending is expected to boom.

With a significant improvement in sales and an effective cost-cutting strategy, investors are betting that Spin Master will do well. I think the company has made all the right moves and is well positioned to grow profitably from here. Accordingly, now is the time for value investors to start re-considering this stock as a top turnaround play.

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