

Next Roblox! A Cheaper Canadian Metaverse Play

### Description

The **Roblox** (NYSE:RBLX) Initial Public Offering (IPO) has been grabbing the attention of growth-hungry investors these days. Despite surging U.S. bond yields, the appetite for white-hot new issues has not slowed down in the slightest. As one of the few plays on the "metaverse," it's not a mystery as to why investors are excited, with a willingness to pay Mr. Market whatever price he asks for.

# Cheaper alternatives out there?

With shares now priced considerably above (shares are currently at US\$72 and change) the IPO price of US\$45, though, I think it's a wiser idea to wait for Roblox stock to cool off. The boom and bust nature of IPOs is nothing new. And I think patient investors may have a chance to snag shares closer to or even below the US\$45 mark, as the U.S. Treasury note yield looks to test the 2% level at some point this year.

The magnitude of growth to be had from a digital gaming sensation like Roblox is quite remarkable. The wildly popular gaming platform, which has been a hit with young gamers, has over 150 million monthly users, and I think it'd be a mistake to think the company won't be able to "grow" alongside its young audience. With RBLX stock priced over 60% above its IPO levels, it's a better idea to look to one of Roblox's up-and-coming competitors, most notably Canadian toymaker **Spin Master** (TSX:TOY), which has made massive strides in its digital business amid the pandemic.

Now, Spin Master is still primarily a designer, developer, and manufacturer of physical toys. But with record growth in its digital gaming segment, Spin Master stock could find itself cutting in on Roblox's turf within the next five years.

## A tech company that makes toys

I've said it before and I'll say it again: Spin Master seems more like a tech company that happens to make toys. Whether we're talking physical toys or digital games, the firm has innovation in its veins.

In the last quarter, digital gaming revenues soared over 400% to just shy of \$32 million.

Digital sales may comprise a less meaningful chunk of total revenues (less than 10%) today. Still, if you think the firm is capable of posting triple-digit percentage growth numbers over the next few years (I think it could), Spin Master stock will be in need of a massive re-valuation to the upside, perhaps closer to a Roblox multiple.

Given the capabilities of management, I do not doubt that the firm can give Roblox a good run for its money with the younger target market.

Spin Master boasts an incredible lineup of brands, including the likes of Hatchimals, PAW Patrol, Bakugan, GUND, and all the sort. If Spin can leverage the power behind such brands as it looks to double-down on digital gaming, the company could be in for some serious revenue growth and multiple expansion.

Personally, I think Spin Master's 400% digital pop could be a preview of what's to come from the digital segment. As such, I find TOY stock's modest multiple (1.9 times sales) to be severely discounting the firm's longer-term growth capabilities on the digital front.

# Spin Master could evolve to become a Canadian version of Roblox

Fellow Fool Chris MacDonald seems to think that Spin Master could be the next Roblox, highlighting similarities between Spin's Toca Life World app and the Roblox platform:

"I think Spin Master's digital games segment is the key to its long-term growth potential. Additionally, on this basis, I think the company is <u>severely undervalued</u> compared to its larger peers right now," <u>wrote</u> MacDonald

"There's more growth that needs to happen for investors to start buying into the Spin Master-Roblox comparison. However, I don't find such a comparison that far-fetched right now."

As usual, Chris is right on the money. There's no reason why a stock with such Roblox-like characteristics should be priced at under 2 times sales. So, if the Roblox IPO tempts you, try Canada's toy kingpin for a spin instead!

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