



## Could the Next Roblox Be Hiding on the TSX Index?

### Description

**Roblox** ([NYSE:RBLX](#)) stock is the latest [hot](#) IPO (initial public offering) over this past month. Despite its incredible surge, many folks are still pounding the table on the so-called metaverse play. The growth story is unbelievable, as too are the fundamentals.

Not even the broader market's [distaste for growth stocks](#) has kept Roblox shares from blasting off to unprecedented heights. As the post-IPO boom and bust cools down, it may make sense to scoop up Roblox shares as a play on young gamers, which have made Roblox into one of the hottest innovative plays on the planet.

### Roblox stock is the most enticing new issue in a while

Today, Roblox stock has been on the retreat, pulling back to US\$64 after rocketing as high as US\$77. And while I wouldn't be against nibbling into a starter position at these lofty multiples (metaverse plays are few and far between), I remain wary over the frothy valuation and the stock's high risk of correcting viciously, perhaps towards its IPO price of US\$45.

After Wednesday's vicious 5% pullback, Roblox stock trades at over 40 times sales. That's profoundly expensive, but ARK Capital's Cathie Wood certainly seems to think the name is a great value relative to its long-term growth potential. Wood picked recently scooped up shares, and I think she'll be ready to load up should Roblox stock implode over the coming weeks and months, as bond yields ascend further.

I'm no fan of playing the IPO game. I think you'd be playing the game of greater fools (that's based on the greater fool theory) alongside weak-handed gamblers. That said, I have to admit that I am very tempted to buy Roblox stock, given its unique business model and its massive total addressable market (TAM), for which there are few, if any, serious competitors.

### Justifying Roblox stock's sky-high valuation

Heck, if you were going to gamble the money on Bitcoin anyways, I'd argue Roblox is the far superior way to double your money, as the firm looks to widen its moat around its userbase. Moreover, Roblox stock is still cheaper than game engine juggernaut **Unity Software**, which trades at north of 35 times sales!

If you're a value investor, though, a double-digit price-to-sales (P/S) multiple is a tough pill to swallow. While Roblox may have limited competition, I think **Spin Master** ([TSX:TOY](#)) is its closest comparable on the **TSX Index**. Spin is a Canadian toymaker, but it's made a big splash in the digital realm amid the pandemic.

## Spin Master: A digital gaming play in the making

Spin Master will remain a physical toymaker at heart, but you can't ignore the 400% in year-over-year growth in its digital gaming segment. Digital doesn't comprise a meaningful chunk of the Spin Master pie yet, but that could change over the coming years, as the mid-cap company has demonstrated on numerous occasions that it's not just any toymaker; it's a tech company that happens to build toys.

Moving forward, I suspect Spin Master will double down on its digital segment, with new apps and games that will leverage the power of its brands. For now, Toca Life World is giving Spin Master momentum in digital, but who knows what the future has in store?

The digital segment is looking up, and as it continues posting impressive growth, I think Spin Master stock will be deserving of a re-valuation to the upside. The market is rewarding gaming plays in a big way, and sooner or later, I think more investors will consider Spin Master as a lite Canadian version of Roblox.

## The Foolish bottom line

Despite the momentum in its digital business, Spin Master will continue to trade like a mere maker of toys at only 1.8 times sales. While it could take many years for Spin to command a higher multiple, I think the stock is worth hanging onto if you're looking for a stealthy way to play a potential future competitor of Roblox.

### CATEGORY

1. Investing
2. Stocks for Beginners

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1. NYSE:RBLX (Roblox)
2. TSX:TOY (Spin Master)

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