



Can Spin Master (TSX:TOY) Stock Keep Surging?

Description

Spin Master ([TSX:TOY](#)) is firing on all cylinders this year. The stock is up roughly 6% even as the rest of the market, particularly tech stocks, plunge lower.

Spin Master has established itself as a leading children's entertainment company. A 55%-plus rally since the start of the year underscores strengthened investor confidence. It continues to create exceptional play experiences for children through innovative toys, entertainment franchises, and digital games.

Latest quarterly figures highlight the company's strengths. The company reported first-quarter profit of US\$3.2 million (C\$3.9 million). Digital games are now nearly 40% higher as part of overall revenue from the previous year. It's fair to say that early investors have had a windfall. But can this run be sustained? Could Spin Master stock keep surging?

Here's a closer look.

Growth metrics

The [company's solid performance](#) over the past year is undeniable. With operations in over 100 countries, Spin Master is increasingly expanding its revenue base, which explains the 3.60% quarterly revenue growth rate. The team has also pursued growth through acquisitions of brands resulting in significant value creation.

A diverse product line ensures the company does not depend on a single revenue stream but provides multilayered stability to sales and earnings. Spin Master is also registering growth in digital gaming with its Toca Life World app gaining lots of traction and a 400% increase in users.

Valuation

The stock appears fairly valuable given that it is trading with a price to sales multiple of 2.75 and a price to book multiple of 5.13. A 5.68% return on equity all but affirms the company's ability to generate returns on investments received from shareholders.

Spin Master has everything going for it, judging by the impressive share price gain over the past year. Additionally, it is well positioned to generate significant shareholder value given the momentum in its digital games backed by a diverse product portfolio.

However, the company does face some headwinds ahead.

The return of normalcy

Over the past year, schools across much of the world have been shut. Childcare services have been similarly suspended. With kids at home with little to do, parents may have been more willing to spend on toys and gaming apps. Screen time may have shot through the roof last year.

However, we are now firmly on a path to recovery in the developed world. Schools and childcare centers could reopen by the second half of 2021, which may slow down Spin Master's pace of expansion.

Shareholders may need to account for this slowdown in growth. However, the stock is trading at a forward price-to-earnings multiple of 32, which means the valuation provides some cushion.

Bottom line

Spin Master has had a fabulous year of growth. Investors who bought in early have seen their investment more than doubled since the crisis erupted. However, with a reopening on the horizon growth could be slower. This may be an ideal time to take some profits.

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Date

2025/09/26

Date Created

2021/05/06

Author

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