2 Quality TSX Stocks That Recently Pulled Back Over 15%

Description

Magna International (TSX:MG)(NYSE:MGA) and **Spin Master** (TSX:TOY) have come a long way since the depths of the coronavirus crash of 2020. Still, in recent weeks, they've looked to pick up a bit of negative momentum. As COVID continues causing global supply chain issues, both discretionary firms could stand to be impacted further. Undoubtedly, their share prices could continue to tumble, as investors look to take profits and put their money on companies that stand to take a lesser impact, as the ongoing pandemic continues to hurt supply chains across the globe.

While I am still a fan of both companies, I can't say their current valuations entice me right here. Add potential risks into the equation, and I may be more inclined to sit on the sidelines. Should shares of either name pull back further into year-end, only then would I think about scaling into a position in the two TSX stocks that I've previously been bullish on amid their rallies out of their respective 2020 lows.

Magna International

Magna International stock has fallen under pressure since the early summer. The TSX stock plunged as low as 24% before recovering modestly to $98 and change, where the stock sits today. Undoubtedly, the auto-parts maker had many tailwinds to its back, as it recovered from the worst of last year's lockdowns. While I do think such tailwinds still exist, they could become less potent as the economy moves into more of a midcycle. Add the potential for COVID-induced chip shortages into the equation (it caused management to lower its guidance), which worked its way into Magna's second-quarter (Q2) results into the equation, and I think Magna is more of a hold or sell than a buy, as it delves further into bear market territory.

The company is incredibly well run, and, in time, I suspect they'll manage through a more challenging environment that could see fading tailwinds and strengthening headwinds. At 10.7 times trailing earnings, Magna stock is by no means expensive. Still, with a 1.55 beta, the TSX stock will be more volatile than the broader markets. And should global shortages become evident in future quarters, count me as unsurprised if the stock remains stuck in the low- to mid-$90 levels.

Spin Master

Spin Master is another incredible performer that's recently seen its shares sag in recent weeks. The stock pulled back around 17% from its high before ricocheting to $43 and change. With the holiday season up ahead, Spin Master could gain some traction in its step. Innovative new toys such as Peek-A-Roo could have the potential to have Hatchimals-like success. Unfortunately, COVID could bring forth supply challenges, and we could see a repeat of the in-demand toy shortage once the holidays arrive. That would mean lost sales for Spin.

On the flip side, Spin's managers could mitigate COVID-induced interruptions. And if they do, the TSX stock could have surprise upside. Add the profoundly strong digital games business into the equation, and it's tough to give up on Spin Master stock. I think patience will be rewarded with a more opportune entry point. I remain a fan of the business, but the price isn't enticing for me to justify getting skin in the game here. The TSX stock trades at 28.7 times earnings and 1.9 times sales. That's a tad too rich for my liking, especially given a more challenging environment up ahead.

I think the easy money has already been made. Should shares flop, I'd look to be a buyer, not just for continued innovations coming out of Spin's pipeline, but because of momentum in its digital games business, which could justify a higher multiple.

CATEGORY

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2. TSX:MG (Magna International Inc.)
3. TSX:TOY (Spin Master)

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