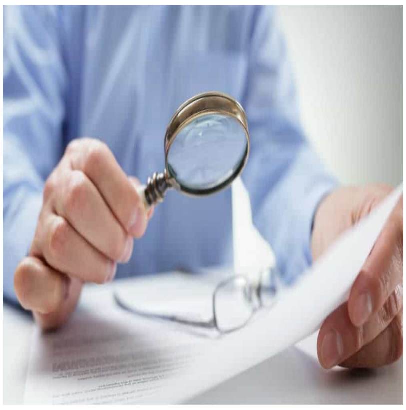

1 Top Canadian Stock That Looks Severely Underpriced

Description

Mr. Market doesn't always make mistakes, but when he does, investors should be in a spot to capitalize. Indeed, the lower a market cap, the less likely a market price (the price of a stock at a given time) is in line with its intrinsic value.

Undoubtedly, it's not easy to reach an intrinsic value estimate. One must conduct a thorough analysis of company-specific fundamentals, the macroeconomic environment, industry conditions, and the wide range of risks that could strike, even those that seem less plausible. Undoubtedly, high-impact events of low probability still must be considered in the valuation process. In the era of COVID, the valuation of companies has become that much harder, given the profoundly unpredictable nature of the insidious coronavirus and its many variants.

Discovering underpriced stocks isn't easy, especially in today's environment

In any case, one must still put in the effort to get the most value of every investment they'll make. It can take weeks to put in the homework, but it's worthwhile, so one knows exactly what to do once the market tides turn south, possibly in a hurry. Despite putting in all the due diligence, one is bound to be thrown a few surprises that were never even on their radar. When such surprises happen, one must re-evaluate their theses to determine if the long-term fundamentals are impacted. If so, they should determine by how much and whether not the damage done to the stock is overblown, given the introduction of new risks or any decay in one's original investment thesis.

If a selloff on bad material news is overblown, one may wish to top up their position on a dip. If the thesis changes for the worst due to poor management or a rise in competition, one may want to trim their position. In any case, this piece will present one Canadian stock in the former category — oversold stocks with long-term fundamentals that still seem as robust as ever. Consider toy company **Spin Master** (TSX:TOY).

Spin Master: Discounted growth prospects and a low bar ahead of earnings

I've been pounding the table on Spin Master stock through the year, noting that strength in the digital games business was likely underrated by investors and analysts. The toymaker proved its resilience through 2020. Yet here we are again; the stock is dipping, as Omicron variant fears pick up. The stock is now in a correction, down over 14% from its recent high of $34 and change per share. Undoubtedly, investors fear that Omicron could pave the way for reduced demand and further supply chain issues. Given a muted holiday season of sales is already baked in, I'd argue that Spin is both a growth and value play at this juncture.

The stock trades at 20.6 times trailing earnings. It's not necessarily cheap, but given the firm's growth prospects in digital gaming, I'd argue that the valuation makes zero sense. Moving forward, I think Spin could be dealt the perfect combo of multiple expansion and better-than-expected earnings. The former driver should appear over time, as investors better respect the firm's digital growth prospects and its potential to break into the metaverse.

The metaverse is more than just a Silicon Valley buzzword. It could be the next frontier, and Spin looks to be in great shape to make the jump, whenever it may be.

CATEGORY

1. Investing

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1. TSX:TOY (Spin Master)

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