Everyone Is Talking About Spin Master Stock: Should You Buy?

Description

It once seemed like **Spin Master** (TSX:TOY) stock was holding quite well even when broader markets turned sour this year. It outperformed the major indexes till late October. However, TOY stock finally dropped 25% this month and is currently trading at its 20-month low.

Spin Master is a children's entertainment company that operates three divisions—toys, entertainment, and digital games. The toymaker has a presence in over 100 countries and is a parent to popular brands like Paw Patrol and Bakugan. Spin Master is the fourth-biggest toymaker in the world.

Why did Spin Master stock fall 20% in November?

The recent stock fall was mainly driven by weaker Q3 2022 earnings and a gloomy outlook. To add to the woes, the uncertainties regarding global growth next year will likely keep the stock lower.

For the quarter that ended on September 30, 2022, Spin Master reported total revenues of $624 million, a drop of 13% year over year. Notably, its net income increased by 4% for the quarter against the same period last year.

But as we know, higher inflation and rapidly rising interest rates have started weighing on corporate earnings growth. Spin Master management said that even though toy markets have been quite stable in 2022, they have started seeing declining consumer confidence. Record-high inflation will also likely dent consumer discretionary spending, ultimately hampering Spin Master's topline.

Weaker outlook amid taxing macro conditions

The Toys segment witnessed a 9% decline in revenues and a margin squeeze during the quarter. This is Spin Master's biggest vertical and contributed 88% of its consolidated sales. Notably, the company is also seeing lower orders from retailers due to higher inventory levels. Also, retailers' focus is gradually shifting from growth to profitability, which will likely affect future orders.

As a result, Spin Master now expects a decline in its adjusted EBITDA margin below its 2021 levels. In the earlier quarter, it had guided that margins would remain in line with the last year. So, the gloomy outlook and margin guidance were unwelcomed by investors, explaining the recent fall. However, management expects Toys sales to return to their historical average next year.

Although Spin Master looks fundamentally good, macro challenges could continue to weigh on the stock. Inflation and rate hike woes could cast a negative shadow for a few more quarters. So, a review of Spin Master stock, probably after Q4 2022 earnings, will make its outlook a lot clearer.

Alternative stock idea

The less-fun business of property insurance is better weathering the economic storm. Although markets have been rough this year, some names have stayed strong and have outperformed. One of them is **Intact Financial** (TSX:IFC). Canada's biggest property and casualty insurer has a leading 20% market share.

The insurer's scale, multi-channel distribution, and in-house claims expertise bode well for its business strength and earnings stability. Intact has witnessed above-average profitability for the last 10 years, which was well reflected in its stock performance. IFC has returned 20% this year and 300% in the last decade, beating TSX stocks.

IFC stock will likely keep trading higher in the long term, driven by its decent earnings visibility. It also pays stable dividends that currently yield 2%. Note that Intact has increased its dividends every year since 2004. So, IFC stock looks like a decent bet for the long term, given the appealing total return prospects.

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