

Should Investors Gamble on These 3 Gaming Stocks?

Description

There's a reason why the mob helped to build Las Vegas. Gambling is a really good business.

These days Canada's gaming sector is dominated by three names. **Amaya Inc.** ([TSX:AYA](#)) is the biggest in terms of market cap, because of its PokerStars and Full Tilt Poker online platforms. Worldwide, these two platforms command a market share of approximately 70% of the online poker market.

Meanwhile, both **Great Canadian Gaming Corp.** ([TSX:GC](#)) and **Gamehost Inc.** ([TSX:GH](#)) are much smaller. These companies both own physical casinos; Great Canadian Gaming has assets across the country, while Gamehost's locations are limited to Alberta.

Which company should investors looking to get exposure to the sector choose? Let's take a closer look.

Amaya

When Amaya acquired PokerStars and Full Tilt Poker in 2014, the market was rightfully very excited.

Not only do these two platforms have a dominant market share, but they're perfectly positioned to move into other areas of the gaming industry. They've only recently begun to expand into sports betting, which is a much bigger market than poker in Europe. And other casino games are even bigger still.

The other nice thing about expanding into other games is that they tend to come with better profits. Poker is a volume game; the casino doesn't really care who wins since it always takes a cut. Sports betting and casino games like slots offer much higher margins than poker.

There's also the company's potential to expand into the United States. Federally, the U.S. Government banned online poker, but states like Delaware, Nevada, and New Jersey have legalized it. PokerStars recently won the right to operate in New Jersey, an announcement that caused shares to soar.

Investors are paying a high price for all this growth. Shares are trading at more than 104 times trailing earnings, which were affected by various one-time costs from the big acquisition. Based on analyst expectations for 2016, shares trade at just 12 times forward earnings. If the company can deliver on the expected growth, this stock looks to be a bargain at current levels.

Great Canadian Gaming

Great Canadian Gaming owns a total of 16 different casinos, with 13 in Canada and three in Washington State. Nine of the 13 Canadian casinos are located in British Columbia.

In the company's most recent quarter, it earned \$19.1 million in earnings on revenue of \$110.9 million, which works out to \$0.27 per share. This was down slightly compared with the year before, when

earnings came in at \$0.29 per share. Earnings for the first six months of 2015 are also down compared with last year, coming in at \$0.51 per share compared with \$0.55 last year.

Although shares are trading very close to a 52-week low, I'd hardly argue the company is cheap. It's on pace to earn \$1.02 per share in 2015, while shares currently trade hands at \$17.57. A P/E ratio of 17.2 times isn't excessively expensive, but sure isn't cheap for a company with declining earnings.

Gamehost

As a value investor, I'm much more interested in Gamehost than Great Canadian Gaming.

Gamehost is also suffering from declining earnings, which can mostly be blamed because of its exposure to Alberta. Earnings for the most recent quarter came in at \$0.16 per share compared with \$0.22 in the same quarter last year.

But unlike Great Canadian Gaming, Gamehost has a couple of things going for it. Firstly, it pays a generous 8.7% dividend, which is currently sustainable based on free cash flow. Secondly, I like that it owns the only casino in both Fort McMurray and Grande Prairie, two cities that aren't big enough for another operator to come to town. A competitor tried to open a casino in Grande Prairie a few years ago, and the Alberta provincial government nixed the idea.

And even during this tumultuous economic time, the company is comfortably profitable. Management also owns a significant percentage of the company, and there's always the potential for a larger operator to make an effort to acquire the company.

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1. Editor's Choice

TICKERS GLOBAL

1. TSX:GH (Gamehost)

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