

## Are These 3 Gaming Stocks a Good Gamble for Your Portfolio?

### Description

Every time I go to a casino, I'm struck by a similar thought: gambling is a pretty good business.

Once the casino is built, most of the additional incremental costs are just staff members to supervise the games. Each game on the casino's floor has been specifically designed to separate a customer from their money in the most efficient way possible. There's enough left over in profits that a government can take a very generous slice of the pie and shareholders will still be happy.

There are dozens of gaming stocks in the United States. Up here in Canada, our gambling sector really only consists of three stocks. Two are physical casino operators, **Gamehost Inc.** ([TSX:GH](#)) and **Great Canadian Gaming Corp.** ([TSX:GC](#)). The other one is **Amaya Inc.** ([TSX:AYA](#))(NASDAQ:AYA), the owner of the PokerStars and Full Tilt Poker platforms.

Is exposure to the lucrative gambling industry enough to make these stocks a buy at today's levels? Let's take a closer look at each.

### Amaya

Many value investors like Amaya shares at today's levels.

There are a number of reasons why. PokerStars is a dominant platform with a market share approaching close to 70%. Once you strip out all of the unusual items from the income statement, the online poker business is quite profitable. And there are easy expansion opportunities by enticing existing poker customers to use the same platform to play casino games and bet on sports.

But not everything is super rosy. The company took on a lot of debt when it made the big acquisition in 2014—debt that could become an issue if cash flow declines. And more importantly, the company and its CEO were implicated in what became Canada's largest-ever insider trading investigation. Charges have been laid, and the CEO David Baazov has taken a leave of absence while the company deals with these charges.

What complicates things further is Baazov has made an offer to take Amaya private at \$21 per share, a price nearly 25% higher than current levels. Cynics are saying Baazov only made the offer to draw attention away from the insider trading investigation.

Amaya has great assets. It's the quality of management some people have an issue with, myself included.

### Great Canadian Gaming

Great Canadian Gaming is Canada's largest operator of casinos, owning 14 different facilities in B.C., Ontario, Nova Scotia, and New Brunswick. It also owns three casinos in Washington State.

Great Canadian benefits from being the biggest in the sector. It becomes the go-to name for institutional investors who want exposure to the area. It has good growth potential as well. If you're a casino operator looking to sell, it's probably the first company you'll call.

Shares trade at a reasonable valuation, too. Earnings over the last year were \$1.08 per share, putting the company at approximately 16.4 times earnings. Analysts think the next year will be even better with earnings expected to be at \$1.32 per share for 2016, putting shares at 13.4 times forward earnings.

That's a very reasonable valuation for the market leader.

## **Gamehost**

Gamehost is a small casino operator in Alberta which owns three casinos. One is located in Calgary, one is in Fort McMurray, and the other is in Grande Prairie. Hotels are attached to the Calgary and Grande Prairie locations. Because of the company's exposure to the Albertan market, shares got hit as oil went down.

Gamehost has several things going for it. Shares trade at about 13.5 times earnings, which is a good valuation. The company pays a dividend of more than 8%, a great yield in today's low interest rate world. Insiders own a huge chunk of the company as well and have been buying more during this downturn.

Additionally, there are no new casinos planned in Alberta, which means the company's market share looks to be pretty safe. Add in the potential catalyst of Alberta's economy recovering, and those are the reasons why Gamehost is a core holding in my portfolio.

## **CATEGORY**

1. Dividend Stocks
2. Investing
3. Tech Stocks

## **TICKERS GLOBAL**

1. TSX:GH (Gamehost)

## **Category**

1. Dividend Stocks
2. Investing
3. Tech Stocks

## **Date**

2025/07/01

## **Date Created**

2016/04/27

## **Author**

nelsonpsmith

default watermark