Who Has More Game: Great Canadian Gaming Corp. or Gamehost Inc.?

Description

Great Canadian Gaming Corp. (TSX:GC) owns 20 different gaming properties, including 12 casinos, four racetrack casinos, three community gaming centres, and a commercial bingo hall.

Its operations are mostly in B.C. with more than half of its 2016 revenue coming from that province and almost a third of revenue specifically coming from the River Rock Casino. Ontario makes up almost a fifth of revenue, with the remainder split between New Brunswick and Washington State.

Great Canadian Gaming is diversified in both its gaming properties and the geographical regions it serves.

The company's recent fiscal year end showed a strong year over year revenue growth of 22% and overall earnings increased by 3%. It has averaged a sales-growth rate of over 11% for the past three years.

The stock's performance YTD has been down over 5%, but over the past 12 months, it has increased over 26%. With a price-to-earnings ratio over 17 and a price-to-book multiple of 3.5, the stock is a little expensive. However, the growth the company has shown and the potential it has going forward might well justify its price.

One consequence of its growth strategy has been an absence of any payout to investors, which can be forgiven should the growth continue.

With a well-diversified portfolio of locations and strong growth, Great Canadian Gaming presents a good long-term investment.

Gamehost Inc. (TSX:GH) is based in Alberta and its four properties are spread around the province, with two locations in Grande Prairie (one hotel and one casino), and a casino each in Calgary and Fort McMurray. Gamehost is not as well diversified as Great Canadian Gaming in its operations and is heavily dependent on Alberta's economy.

The company is exposed to greater risk as it is indirectly impacted by oil and gas prices, which directly impact Alberta and the disposable income potential consumers have to spend on gaming. As a result, its long-term profitability will hinge on how well the province can recover.

In addition, the Fort McMurray wildfires had an adverse impact on the company's performance in 2016, and the sooner that area recovers, the sooner the company's financials will as well.

Gamehost's 2016 financials showed a drop in operating revenues of $10 million (13%), with Q2 (when the Fort McMurray location was shut down for most of the quarter) seeing a decline of $4.5 million (23%). Excluding Q2, the drop in revenue would have been closer to 9%.

With Fort McMurray being a year removed from the wildfires, the financials should see improvement from a full year of operations at the casino. However, whether it still brings in the revenues that it did in the past remains to be seen, as people may be more careful with their money given the crisis.

The stock performance YTD for Gamehost has been poor, with a drop of 20% so far. Currently, the stock is trading at its 52-week low and is paying a very good dividend of almost 8%. With a price-to-earnings ratio of about 14 and a price-to-book multiple of 1.9, it presents an opportunity for a value investor with enough faith in either oil prices or the Albertan economy.

For a risk-averse investor, Great Canadian Gaming presents the more secure, stable option. However, Gamehost might offer more upside in the short term for those willing to take on some added risk.

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