Great Canadian Gaming Corp. Lands 3 New Locations in Ontario

Description

The Ontario Lottery and Gaming Corp. (OLG) has selected **Brookfield Business Partners LP** (TSX:BBU.UN)(NYSE:BBU) and **Great Canadian Gaming Corp.** (TSX:GC) to run the casinos that the OLG owns in and around Toronto.

The deal gives Brookfield and Great Canadian exclusive rights for at least 22 years to run the casinos. Needless to say, this is a huge boost to both companies that will benefit the bottom and top lines of each. Each company will have a 49% stake in the partnership, with the remaining 2% coming from **Clairvest Group Inc.** (TSX:CVG).

The deal includes three locations, including the Woodbine Racetrack, which, although it's currently only limited to slot machines, has been approved by the city for expansion into a casino. It is that expansion into a world-class casino that the new partnership will be overlooking and managing.

The two other locations are the Great Blue Heron Casino which is located in Port Perry, about an hour outside the Metro Toronto area, and Ajax Downs Racetrack, which has over 800 slot machines.

Under the agreement, the new partnership will acquire all the gaming assets for these locations, and the deal is expected to be completed in early 2018.

About the companies

Brookfield offers business services and works at acquiring companies that it believes it can achieve 15-20% returns on by improving operations. The company focuses on margins, cash flows, and profitability to help the acquisition succeed.

Great Canadian currently operates over 20 gaming properties, including 15 casinos and four racetrack casinos. It operates out of multiple provinces, including Ontario, and has a presence in the U.S.

Investor reaction

After the news came out about the OLG's decision, Great Canadian saw its stock climb over $4 a share for an increase of over 15% in its stock price to reach a new 52-week high. The company is due to release earnings this week; however, the impact will likely not be as significant as the OLG's decision.

Brookfield saw a rise in its stock price of only 5%, but it too is near 52-week highs. However, the good news from the OLG was offset by the company's earnings release, which also happened on Tuesday. Brookfield's earnings were disappointing, as the company posted a loss and missed expectations. Otherwise, we can assume the shares would have seen more of an increase in price.

Bottom line

The decision of whether or not to invest is a difficult one, because the stocks involved have already appreciated significantly in price. The market has a history of exaggerating gains and then giving back some of those gains in the following days.

In Great Canadian's case, a lot will hinge on how the company's earnings will do. A good earnings report could amplify the stock's returns, while a poor earnings report will certainly claw back some of the share price. Overall, the company has been performing well, but at a multiple of 22 times earnings, the share price is a little rich for value investors.

As for Brookfield, the company has been struggling to turn profits, and with another unprofitable quarter in the books, it has been in the red for four of the past six quarters. The company's lack of profitability combined with the stock trading near 52-week highs is enough for me to suggest staying away from the shares for now.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:BBU (Brookfield Business Partners L.P.)
2. TSX:BBU.UN (Brookfield Business Partners)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date
2025/08/15
Date Created
2017/08/09

Author
djagielski