



Why The Stars Group Inc. Rallied 5.3% on Wednesday

Description

The Stars Group Inc. (TSX:TSGI)(NASDAQ:TSG), one of the world's leading online gambling companies, announced its second-quarter earnings results and provided positive guidance revisions before the market opened Wednesday morning, and its stock responded by rallying 5.3% in the day's trading session. Let's take a closer look at the quarterly performance and the revised outlook to determine if this could be the start of a sustained rally higher and if we should be long-term buyers today.

A very strong Q2 performance

Here's a quick breakdown of five of the most notable statistics from The Stars Group's three-month period ended on June 30, 2017, compared with the same period a year ago:

Metric	Q2 2017	Q2 2016	Change
Total revenue	US\$305.31 million	US\$285.76 million	6.8%
Adjusted EBITDA	US\$146.54 million	US\$129.89 million	12.8%
Adjusted cash flow from operations	US\$139.48 million	US\$107.37 million	29.9%
Adjusted net earnings	US\$114.03 million	US\$89.74 million	27.1%
Adjusted net earnings per diluted share (EPS)	US\$0.56	US\$0.46	21.7%

Guidance revisions

In the press release, The Stars Group also provided positive revisions to its guidance for the full year of 2017. Here's what it now expects to accomplish:

- Revenue is now expected to fall at the upper end of its previously stated range of US\$1,200-1,260 million
- Adjusted EBITDA of US\$560-580 million remains unchanged

- Adjusted net earnings in the range of US\$413-437 million compared with its previous guidance of US\$400-430 million
- Adjusted EPS in the range of US\$2.01-2.15 compared with its previous guidance of US\$1.94-2.13

What should you do now?

The second quarter was a great success for The Stars Group, and it capped off a very strong first half of the year for the company, in which its revenue increased 8.4% to US\$622.53 million and its adjusted EPS increased 22.8% to US\$1.13. The second-quarter results also came in above analysts' expectations, which called for adjusted EPS of US\$0.54 on revenue of US\$302.86 million.

With all of this being said, I think the market responded correctly by sending The Stars Group's stock higher by 5.3% on Wednesday. I also think it could continue higher from here, because I think investors will continue to pay up for its incredible growth rate, and because it still trades at extremely inexpensive valuations, including just 9.1 times the median of its updated EPS outlook for 2017 and a mere 8.5 times the consensus analyst estimate of US\$2.23 for 2018.

With all of the information provided above in mind, I think Foolish investors should strongly consider initiating small positions in The Stars Group today with the intention of adding to those positions on any significant pullback in the future.

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