



Should You Try to Ride the Wave at Great Canadian Gaming Corp.?

Description

On August 8, the Ontario Lottery and Gaming Corporation announced that it would partner with **Great Canadian Gaming Corp.** (TSX:GC) and **Brookfield Business Partners LP** ([TSX:BBU.UN](#))([NYSE:BBU](#)) to redevelop and expand three casinos in the Greater Toronto Area. There is a possibility that a fourth site will be added to the deal. Trading was halted for Great Canadian Gaming on the day the news was released and commenced on August 8.

Trading from August 8 to 11 saw Great Canadian Gaming stock rise 27%. As of close on Friday, it was priced at \$32.30. Brookfield rose almost 4% over the course of the week, but it cooled off mid-week. Does it make sense for investors to buy into either company after this surge?

The biggest prize in the deal is Woodbine Racetrack, which is expected to undergo a transformation into a casino and entertainment complex. Woodbine combined with the other two sites in Ajax and the Great Blue Heron casino generated more than \$1 billion in gaming revenue last year. Great Canadian Gaming boasts a strong balance sheet and indicated that it may be able to fund the deal without any new debt added.

The deal will net \$72 million annually and 70% of gambling revenue for both companies. The Woodbine site is considered to be largely untapped with slots and racing making up the entertainment. An expansion will include a fully operational casino that's expected to maximize revenue and result in a dramatic uptick in clientele. The site currently has about 3,000 electronic games but no live dealers. The new site will also include a hotel, restaurants, shopping, and office space, as well as urban residential living. Revenues are already high at the site, but with the expansion, it goes without saying that the growth potential is huge.

The deal stretches over a 22-year period. OLG spokesperson Tony Bitoni said that, post-modernization, the Woodbine site could potentially generate \$900 million more in total revenues.

On August 10, Great Canadian Gaming released its second-quarter results. It reported revenues of \$161 million, which represented growth of 15% from Q2 2016. Adjusted EBITDA saw an increase of 14% to \$62.8 million. Shareholder net earnings were reported at \$26.7 million — a 17% increase from

the same period last year. Chief Executive Officer Rod Baker praised the recent move and was extremely optimistic about the potential net growth from operations of the new sites. The company also touched on developments at River Rock and Casino Nova Scotia Halifax refresh projects. These are expected to be completed by 2018.

The competition for the deal was fierce and on a global scale for good reason. It solidifies a multi-decade revenue monster. Brookfield expects earnings to receive a double-digit boost as a result of the deal. The long-term outlook for both stocks makes this a safe add, even after the red-hot week experienced in the wake of the highly lucrative deal.

CATEGORY

1. Investing

TICKERS GLOBAL

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

PARTNER-FEEDS

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