



## You Have to Know When to Hold'em: Great Canadian Gaming Corp.

### Description

Well, you know how the song goes...

You also need to know when to fold'em.

**Great Canadian Gaming Corp.** (TSX:GC) has been on an incredible ride lately, after announcing details of a proposed partnership with the Ontario Lottery and Gaming Corporation (OLG) and **Brookfield Business Partners LP** ([TSX:BBU.UN](#))([NYSE:BBU](#)) in which the two companies would acquire the exclusive rights to operate three Toronto-area casinos for 22 years, each owning 49% of the joint entity, with 25 owned by an outside third party.

In this article, I'm going to discuss some of the details of the deal, and why the market may have priced in too hefty a premium for long-term investors to consider this stock at current levels.

### What's the deal?

The deal that Great Canadian Gaming Corp. (GCGC) and Brookfield made with the OLG will most certainly be a profitable one for the two firms, who will be given license to run the OLG Slots at Ajax Downs, the OLG Slots at Woodbine and the Great Blue Heron Casino which is located on native land in Mississauga, home to the Scugog Island First Nation.

These three casinos generate more than \$1 billion in total gambling revenues annually, employing more than 2,200 people to support 60 table games and more than 4,000 slot machines. These casinos were purchased for an undisclosed amount, a factoid which remains a pesky "what if" in the side of analysts.

### How much was this deal really worth?

Assuming no up front costs, a 10% discount rate, an even \$1 billion in gambling revenue (conservative number, but let's go with this), and the company's current 14.55% profit margin extended out over 22 years, we get a \$1.28 billion valuation for these cash flows. Of course, if GCGC is able to introduce operational synergies, increase revenues or profits or both, or find ways of streamlining the business

and cutting costs, the amount paid could be much higher.

One of the difficulties with this deal is simply the lack of information provided for the deal. With the purchase price the one piece missing that has investors and analysts wondering what the underlying value of the deal is, the proposed \$1 billion spend by the two firms to expand the casinos has an unknown payback period, something investors will certainly want to know, and something that will most certainly affect the stock price of GCGC moving forward.

### **Bottom line**

Great Canadian Gaming Corp. has probably made a good deal in purchasing these three casinos, however investors will really have no idea how good the deal is until more details are published. I would hold off on buying shares on the news until the whole story is known – at this point, much of the increase in these companies' share prices is due to speculation.

Stay Foolish, my friends.

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

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

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