



Is The Stars Group Inc. and Online Gambling the Right Play?

Description

Over the past three months, shares of **The Stars Group Inc.** (TSX:TSGI)(NASDAQ:TSG), formally known as Amaya, have dropped by over 16%, leaving investors both confused and greedy at the same time. On one hand, why is the stock tanking? On the other, with shares down so much, is it worth buying?

Readers know that I am bullish on The Stars Group primarily because I believe online gambling is only going to grow. If we look at the United States alone, online poker would be a US\$2-billion-a-year business if all 50 states allow it. And why wouldn't they allow it at some point? Jurisdictions across the world are suffering from weak balance sheets. As more regions realize that there is serious tax money to be made from online gambling, they'll start to approve it.

It's not just the regulatory side, though. From a societal perspective, we spend more time on our phones and computers than anywhere else. When online gambling is legalized, I expect people to naturally gravitate to the ease of mobile gaming, which The Stars Group will provide.

So, what's the story with The Stars Group?

Before it rebranded, the company had some problems. The former CEO, David Baazov, was forced to resign due to securities-related charges based around the acquisition of some of the company's largest brands. Rather than go away quietly, though, Baazov first tried to take the company private. When that didn't work, there was a push to merge with William Hill PLC, another gambling company.

All of this creates a lot of uncertainty around the company. Despite a rebrand, which the CEO says has nothing to do with the uncertainty, it's going to take investors a little while to realize that this company has an amazing opportunity. Fortunately, when others are questioning something, you can act and make smart investments.

And the time is right, because the company is executing flawlessly. In its Q2 2017 results, the company reported a 6.8% year-over-year increase in revenue from US\$285.7 million to US\$305 million. But here's the insane number: for the quarter, net earnings were up 213% to US\$70.5 million, up from US\$22.5 million. That's a huge boost.

What excites me even more is that this increase in net earnings is despite a 5.9% year-over-year decrease in online poker revenue to US\$202.9 million. Why does that excite me? Because casino & sportsbook revenue was up 50.2% to US\$89.6 million. Still confused? Poker revenue doesn't have a very high margin. And what about casino games? The margin is incredibly high. Therefore, the more money that moves to casino & sportsbook games, the better.

Going forward, The Stars Group has quite a bit of opportunity for growth. We've already discussed The Stars Group trying to gain more approvals in the United States, with applications pending in California, Florida, Illinois, New York, and Pennsylvania. If approved, that would open online gambling to five states that, combined, have over 100 million people. Obviously, the vast majority won't play, but it's still a big market.

And then there's growth into India. Rafi Ashkenazi, CEO of The Stars Group, said that the company's ultimate goal is to acquire 50% of the online poker market, which could be worth US\$150 million in a few years — this doesn't even include the potential casino games, which I love more.

Ultimately, I believe online gambling is going to become a reality across the world. People like games, and the thought of winning money is appealing to people. With investors still uncertain, I believe this is a great time to load up before the market gets wise.

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