



The Stars Group Inc.: Is This the Calm Before the Storm?

Description

Those that have read my articles know that I'm bullish on the potential for online gambling and [think investors](#) should own a piece of that pie. Canada's best play is **The Stars Group Inc.** (TSX:TSGI)(NASDAQ:TSG), which has catapulted in price over the past couple months. However, despite that, I actually think that this is still the calm before the storm.

Why is The Stars Group up so much?

It all started in September when the company boosted its full-year 2017 guidance. Originally, the company planned to bring in US\$1.2-1.26 billion, but the company increased that to US\$1.285-1.315 billion. Adjusted net earnings were originally estimated at US\$413-437 million, but management now believes net earnings will be US\$445-469 million. This is all compared to US\$367 million in 2016.

The Stars Group also announced that it had prepaid an additional \$75 million under its second lien term loan. In total, it has repaid \$115 million in 2017, reducing its expected annual interest expense by \$9.5 million and reducing the balance to \$95 million.

Then in November, The Stars Group released its third-quarter results, reaffirming the guidance. Total revenue was up 21.7% to US\$329.44 compared to the same quarter in 2016. Poker revenue was up 12.5% to US\$221.39 million, Casino & Sportsbook revenues were up 48.2% to US\$95.16 million, and other gaming revenues were up 31.6% to US\$12.68 million. Adjusted net earnings were up 40.7% to US\$119.6 million.

With all of this in mind, why do I call this the calm before the storm?

Like other, once [frowned-upon recreations](#), online gambling is going to require regulatory changes to reach its peak in Canada and the United States. I expected things to move at a slow and steady pace. Back in June, the U.S. Supreme Court agreed to hear a case on the constitutionality of the Professional and Amateur Sports Protection Act of 1992, which bans sports gambling across most of the United States.

Should the Supreme Court side with New Jersey and strike that bill down, it could open the entire

country to sports betting. Some studies have estimated there are hundreds of billions of dollars wagered in the United States illegally every single year. If The Stars Group can get a piece of that pie, it'd be a massive win to its revenue.

The Stars Group also has applications pending in California, Florida, Illinois, New York, and Pennsylvania to launch operations. If all five states approve this, online gambling will be made available to tens of millions of people. It's true that many might not play, but with how easy it is to play on one's phone, many will play.

But growth isn't just in the United States. The company is expanding into India with its poker brands. The ultimate goal, said CEO Rafi Ashkenazi, is to acquire 50% of the online poker market, generating US\$150 million in a few years.

So, yes, this is definitely the calm before the storm. The company projects greater revenue than originally expected, the United States market is going to open soon, and the company is gaining exposure to a country with over a billion people. It's true that this stock is far more expensive than it was a couple months ago, but, frankly, this is just the beginning.

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