



## Growth Investors: 5 Reasons Stars Group Inc. Is a Great Buy

### Description

**Stars Group Inc.** (TSX:TSGI)(NASDAQ:TSG), the company behind the famous PokerStars brand, saw its stock rise more than 4% last week on the strength of its third-quarter results. Sales of \$329 million were up 22% in Q3, and earnings of \$75 million were up from just \$12 million in 2016. Earnings per share of \$0.37 also improved significantly from just \$0.06 last year.

The company had an excellent quarter, and there are five reasons that make the stock a great growth investment.

#### **Less dependence on poker revenue**

The bulk of revenue for Stars Group comes from poker, which, this quarter, made up more than two-thirds of sales, but that dependence is declining, as a year ago it represented more than 72% of total revenue.

Poker continues to grow with sales up 12% year over year, but it was casino and sportsbook revenues that were up more than 48% and were responsible for most of the growth. Other gaming sales were just \$12 million but also saw an increase of 32% from 2016.

#### **Stars Rewards program expected to help retain customers**

In July of this year, Stars Group launched the Stars Rewards program, which is a loyalty program that the company hopes will improve customer experience and retention.

In the release, Stars Group claimed, "To date, approximately 85% of active customers have elected to participate in Stars Rewards and nearly \$45 million in prizes have been awarded."

#### **Cash flow continues to be strong**

Stars Group brought in more than \$370 million in cash from its operation activities in the past nine months, which is up significantly from the \$201 million it accumulated a year ago. Increasing cash flow gives the company flexibility to take on new ventures and acquisitions that can help grow its operations.

### **Stock has been soaring this year**

Stars Group has seen its stock [outperform the TSX](#) by a wide margin this year with year-to-date returns now totaling 45%. The stock may be a bit expensive, as it is trading more than 22 times its earnings, but it's only 1.8 times its book value.

However, investors have not been concerned with the valuation and have been willing to pay a premium given the growth potential that the stock offers in the long term.

### **Strong sales growth is nothing new for the company**

The company has grown its sales since the acquisition of PokerStars, which helped Stars Group [double its sales in just three years](#). With online gaming and betting continuing to grow, the company will have plenty of opportunities to continue growing its business.

### **Bottom line**

PokerStars has become synonymous with online poker, and that brand alone offers significant growth opportunities. What is encouraging is that Stars Group is also growing other segments of its business, namely its sportsbook business, which, at just \$95 million in sales this quarter, has a lot of potential upside, as it was less than half of poker revenue.

Online poker shows no signs of slowing down, and Stars Group is a stock that will be a big benefactor of that growth. Recently, Stars Group received a licence for sports betting in the Czech Republic, and as it expands in more countries, it will be able to reach more users and continue to grow its sales.

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