Does This Growth Stock Have More Upside?

Description

Shareholders of **Great Canadian Gaming Corp.** (TSX:GC) enjoyed a ~12% pop on Wednesday after the company came out with its fourth-quarter and full-year results.

Should investors buy now or wait after this huge run-up? First, let's take a look at the company's recent results.

Recent results

Compared to the fourth quarter of 2016, in the fourth quarter of 2017, Great Canadian Gaming's revenue increased 5.6% to $151 million, which is a positive sign.

The company experienced a slight compression of 0.4% in its adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) margin, which still remains high at 32.6%.

Notably, its adjusted earnings per share (EPS) declined 11.1% to $0.24. On the positive side, its cash generated by operating activities increased 8.2% to $50.4 million. The fourth-quarter results are kind of mixed.

The full-year results look better. Compared to 2016, in 2017, Great Canadian Gaming's revenue increased 8.5% to $614.3 million. The company experienced a small compression of 0.6% in its adjusted EBITDA margin, which still remains high at 36.3%. Notably, its adjusted EPS grew 10.2% to $1.41. As well, its cash generated by operating activities increased 8.8% to $192.3 million.

Business overview

Great Canadian Gaming was founded in 1982. It operates 25 gaming, entertainment, and hospitality facilities in British Columbia, Ontario, New Brunswick, Nova Scotia, and Washington State.

Great Canadian Gaming's growth

Because Great Canadian Gaming increased its adjusted EPS at a compound annual growth rate of 18.7% in the past five years, it is considered a growth company. Naturally, it has been reinvesting into the company and doesn't pay a dividend.

Since 2013, it has had returns on assets of +7% and returns on equity of +19% every year, which indicate the company is investing in the right places and generating good returns on its assets. Its consistent profitability has translated to an annualized rate of return of +27% since 2013. (Notably, in the same period, the company's multiple expanded from ~16 to ~27.)

Is there more upside to Great Canadian Gaming?

The analyst consensus from **Thomson Reuters** has a 12-month target of $38 per share on the stock. Whether it's a coincidence or not, the stock rallied to just above $38 per share on Wednesday after the earnings results.

At ~$38 per share, Great Canadian Gaming trades at a multiple of about 27. As a result, the stock is pretty fully valued. So, the near-term upside is probably muted. Interested investors are better off waiting for the stock to consolidate or dip meaningfully before scaling in.

Investor takeaway

If you're looking for long-term growth, you might consider taking a small bite out of the stock. However, keep in mind that Great Canadian Gaming will need to continue delivering high growth to maintain its high multiple. If the company experiences any slip-ups, the stock will likely be severely punished. Cautious investors should wait for some price consolidation or meaningful dip before considering buying.

You might want to explore [other growth stocks] at this point in time.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

Tags

1. Editor's Choice

Date
2025/08/06
Date Created
2018/03/08
Author
kayng