



Why Stars Group Inc. Is Down Over 8%

Description

Stars Group Inc. (TSX:TSGI)(NASDAQ:TSG), one of the world's leading online gambling companies, announced its fiscal 2017 fourth-quarter and full-year earnings results this morning, and its stock has responded by falling over 8% in early trading. Let's break down the quarterly results and the company's outlook on 2018 to determine if we should consider using this weakness as a long-term buying opportunity.

Breaking down the quarterly results

Here's a quick breakdown of five of the most notable financial statistics from Stars Group's three-month period ended December 31, 2017, compared with the same period in 2016:

Metric	Q4 2017	Q4 2016	Change
Total revenue	US\$360.25 million	US\$310.29 million	16.1%
Adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA)	US\$147.00 million	US\$147.60 million	(0.4%)
Adjusted cash flow from operations	US\$132.28 million	US\$142.81 million	(7.4%)
Adjusted net earnings	US\$111.95 million	US\$107.01 million	4.6%
Adjusted net earnings per diluted share (EPS)	US\$0.54	US\$0.53	1.9%

And here's a quick breakdown of five notable statistics from Stars Group's 12-month period ended December 31, 2017, compared with the same period in 2016:

Metric	Fiscal 2017	Fiscal 2016	Change
Total revenue	US\$1,312.32 million	US\$1,155.25 million	13.6%

Adjusted EBITDA	US\$600.31 million	US\$524.09 million	14.5%
Adjusted cash flow from operations	US\$525.52 million	US\$420.93 million	24.8%
Adjusted net earnings	US\$458.94 million	US\$366.70 million	25.2%
Adjusted EPS	US\$2.25	US\$1.88	19.7%

Outlook on the year ahead

In the press release, Stars Group provided its outlook on fiscal 2018; here's what it expects to accomplish:

- Total revenue in the range of US\$1,390-1,470 million, representing growth of 5.9-12% from 2017
- Adjusted EBITDA in the range of US\$625-650 million, representing growth of 4.1-8.3% from 2017
- Adjusted net earnings in the range of US\$487-512 million, representing growth of 6.1-11.6% from 2017
- Adjusted EPS in the range of US\$2.33-2.47, representing growth of 3.6-9.8% from 2017

Should you buy on the dip?

Stars Group posted a very strong performance in 2017, highlighted by double-digit percentage growth across all of its key financial metrics, but its fourth-quarter performance wasn't all that great, and its outlook on fiscal 2018 calls for its growth to slow, so I think the weakness in its stock can be considered warranted; that being said, I think the weakness represents an attractive entry point for long-term investors, because it trades at very inexpensive valuations, including just 11.9 times fiscal 2017's adjusted EPS of US\$2.25 and only 11.1 times the median of its adjusted EPS outlook of US\$2.33-2.47 for fiscal 2018, both of which are inexpensive given its current earnings-growth rate and its [long-term growth](#) potential.

With all of the information provided above in mind, I think Stars Group represents a great long-term investment opportunity today, and my Foolish colleague Demetris Afxentiou agrees, as he recently named it [his top pick](#).

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