Which Is the Better Buy: Great Canadian Gaming Corp. or Stars Group Inc.?

Description

Great Canadian Gaming Corp. (TSX:GC) and **Stars Group Inc.** (TSX:TSGI)(NASDAQ:TSG) are two of the best performers in 2018 on the TSX, up 49% and 59%, respectively.

Both have plenty of good things going on in their businesses, and both are stocks I've recommended in recent months. While both are worth owning if you can only purchase one, here's the better buy.

The pros of owning Great Canadian Gaming

A recent article in *The Globe and Mail* suggested that the Ontario government got taken to the cleaners by Great Canadian and its partner, **Brookfield Business Partners L.P.** (TSX:BBU.UN)(NYSE:BBU) when they acquired the rights to operate several Southern Ontario casinos, including Casino Woodbine from the Ontario Lottery and Gaming Corporation.

"The core problem with the sale is that the Great Canadian-Brookfield partnership purchased the casino bundle for approximately one times EBITDA – a paltry amount. The casinos that were sold were performing well, profitably generating a gross gaming revenue of more than $1-billion in 2016," wrote David Zarnett May 17. "As Great Canadian's management put it, the casinos 'were already producing some pretty exceptional results.' Clearly, the final sale price does not reflect the strength of the bundle."

If you're a Great Canadian shareholder, the good news is that management knows how to negotiate a deal. As Great Canadian continues to roll up Canadian casino operations, you can be sure that more situations of this kind will fall into its lap.

The fact is, governments don't want to run casinos. If someone like Great Canadian Gaming can bring an increased level of professionalism to the government assets, I say bring 'em on.

Besides, Zarnett's piece got it wrong about the total value to Ontario taxpayers. Great Canadian Gaming is buying the rights to operate the casinos for a minimum of 22 years. According to the Financial Accountability Office of Ontario, the estimated value of the deal to the Ontario government is $34.5 billion over 22 years.

This was a good deal for both sides — a deal that will produce significant revenues for everyone involved. If Great Canadian wants to get more of these contracts across Canada, the last thing it wants to do is fleece the governments providing the contracts.

The pros of owning Stars Group

The news that individual states will be able to legalize sports betting was viewed positively by investors, who pushed TSGI stock up by almost 10%. However, the real story for anyone following the company is its US$4.7 billion acquisition of Sky Betting & Gaming, a UK sportsbook with US$869 million in annual revenue.

CEO Rafi Ashkenazi called it a “landmark moment” for Stars Group — and it is. With the purchase of one of the UK’s largest sports betting operations, Stars Group becomes a more diversified business that is far less reliant on online poker.

The only downside is that the profits from sports betting aren’t very good.

“Sports betting is a *very* low-margin business. The take rate of sports wagering is around 5 percent, while it’s closer to 20 percent in horse racing,” stated venture capitalist Greg Bettinelli on May 15. “And in unregulated markets (which will occur somewhere in the U.S.), the price of the product is going to get close to zero. It’s going to be hard to make any money, and customer loyalty will be basically nonexistent without pricing power.”

Which is the better buy?

While there’s no question that Stars Group is the global player of the two, Great Canadian is rolling up some excellent casino properties that will deliver significantly more revenue in ten years’ time than they do today without racking up nearly as much debt.

Currently, both stocks are valued almost identically.

The big difference is the level of debt. Great Canadian has $608 million in long-term debt, which amounts to 19.6% of its market cap. Stars Group has US$2.2 billion in long-term debt, which is 32.4% of its market cap. However, that’s before the Sky purchase Add that to the equation and you get approximately US$5.9 billion in long-term debt, which is 67.1% of its market cap.

If I can buy only one of the two, I’d go with Great Canadian because of lower interest-rate risk.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:BBU (Brookfield Business Partners L.P.)
2. TSX:BBU.UN (Brookfield Business Partners)

PARTNER-FEEDS

1. Msn
2. Newscred

3. Sharewise
4. Yahoo CA

Category

1. Investing

Date
2025/07/02
Date Created
2018/05/22
Author
washworth