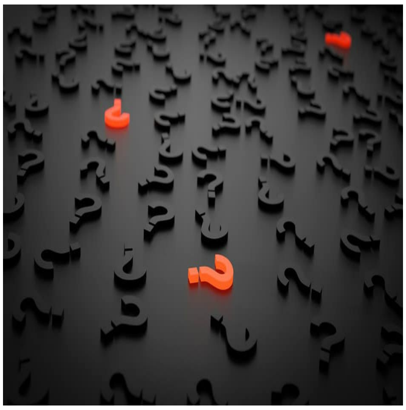

Is Great Canadian Gaming Corp. (TSX:GC) Ready to Take a Big Fall?

Description

Two pieces of information about **Great Canadian Gaming Corp.** (TSX:GC) recently surfaced that got me wondering if all the good things at the gaming company were ready to come to an abrupt end, thereby putting the stock's momentum in serious jeopardy.

Before I render my conclusion, let's consider both pieces of news.

B.C. to tighten regulatory screws

Fool contributor David Jagielski laid out the consequences of the B.C. government's "Dirty Money" report released June 27 that examined that province's gaming industry and the problems associated with money laundering.

According to former RCMP deputy commissioner Peter German, who conducted the examination into the casino industry and is responsible for the subsequent report, more than $100 million was laundered by organized crime through B.C. casinos.

"Casinos serve as a vehicle through which organized crime washes cash in the placement phase of the money laundering process," German stated in his report. "The gambler can take his or her residual funds and/or winnings and invest that money as you would cash from a legal source."

Jagielski rightly points out that this is a serious headwind for Great Canadian given that its River Rock casino generates significant revenue for the company.

Fortunately for investors, it appears that casino staff was bringing forward money-laundering issues, but the provincial government either failed to provide an adequate reporting mechanism or they just didn't want to know what was happening.

Either way, the provincial government will have to increase the amount of attention it gives the casino industry, which does mean additional enforcement headaches for Great Canadian.

However, it doesn't appear that Great Canadian did anything wrong in its role as a casino operator; it should be able to carry on operations without any difficulty. While it's too early to tell how nipping money laundering in the bud will affect revenues, I don't think it will hurt the company in the long run.

Did the Ontario government pull the wool over its eyes?

In June, Globe and Mail columnist Andrew Willis wondered if the fantastic deals it signed with its partners to run casinos in the GTA — Woodbine and others announced August 8, 2017, and Mohawk and others December 19, 2017 — might actually turn out to be a victory for the provincial government.

Willis noted in his article that the Ontario government is set to generate $34.5 billion in revenue from its deals with Great Canadian over the next 22 years — and possibly a lot more depending on how the "revenue thresholds" are structured.

The provincial government gets all the casino revenue up to a certain dollar amount annually, 30% above that with Great Canadian and its partners getting everything above that.

Analysts wonder if the threshold increases in subsequent years are so substantial that Great Canadian won't possibly be able to make enough money from the casinos.

I have two arguments for this rationale.

First, when has the Ontario government ever made a good deal with a private company? Doug Ford was elected in large part because of some of the poor deals the previous government made on behalf of Ontarians.

Second, I might be concerned if its partner in the Woodbine deal, the crown jewel of all the OLG casinos put up for tender, wasn't **Brookfield Business Partners LP** (TSX:BBU.UN)(NYSE:BBU).

Brookfield CEO Bruce Flatt generally doesn't make too many mistakes — and certainly not with a second negotiator like the Ontario government.

I'm not suggesting that the Ontario government was fleeced — it gets some very good casino assets fancied up without having to reach into its bare coffers — but I think it's fair to say that both parties to these deals will benefit immensely.

The bottom line on Great Canadian stock

Both of these items aren't nearly as troubling as short-sellers will have you believe.

Is Great Canadian stock ready for a fall? Not by a long shot.

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