



Should You Buy the Dip at Stars Group Inc. (TSX:TSGI)?

Description

Stars Group (TSX:TSGI)(NASDAQ:TSG) stock plunged 10.86% on August 13. The company released its second-quarter results before markets opened. By all accounts it was a stellar earnings release for Stars Group, but gains appeared to be priced in ahead of the news. There are a number of reasons investors seeking long-term growth may want to jump on this opportunity.

States are moving forward on legal sports betting

In the beginning of the year, I'd [recommended](#) that investors bet on Stars Group. The company would later [celebrate](#) the Supreme Court decision to pave the way for legalized sports betting in the United States in May. The American Gaming Association has estimated that there is a \$150 billion illegal sports betting market in the U.S. Solid earnings and the huge revenue windfall from legal sports betting has powered the stock to rise 27% in 2018 and 57% year over year.

The largest betting draw in the United States is the National Football League (NFL). Preseason has just got underway, and states are beginning to legalize sports betting just in time for the regular season. Jennifer Roberts, law professor at the University of Nevada, estimated that 20-30 states will have legalized sports betting in the next five to 10 years.

Delaware was the first state to move toward legalization with New Jersey quickly following. Some other states that have legalized or partially legalized sports betting include West Virginia, Mississippi, Rhode Island, and New York. Bills have been proposed in states like California, Michigan, Illinois, and many others.

Buy the post-earnings dip?

Total revenue in the second quarter increased 34.8% year over year to \$411.5 million, and gross profit jumped 29.8% to \$327.8 million. Betting revenue soared 122.2% to \$19.6 million, and the company was happy to include its Australia acquisitions, which included additional betting revenue of \$61.2 million. International betting revenues were driven by the launch of BetStars in new markets and the increased activity due to the 2018 FIFA World Cup.

Stars Group has moved quickly to capitalize on the push to legalize sports betting in a number of states following the landmark decision in May. On August 2, Stars Group and Resorts Casino Hotel announced the extension of a partnership in the New Jersey regulated online gaming market to include online and mobile sports betting through the BetStars brand. Later, on August 10, Stars Group and Mount Airy also announced a partnership to enter Pennsylvania's online sports betting and gaming market.

The company upped its guidance for the full year 2018. It now forecast revenues between \$1.99 billion and \$2.14 billion compared to between \$1.39 billion and \$1.47 billion. The company also projects adjusted EBITDA between \$755 million and \$810 million and capital expenditures between \$110 million and \$150 million.

The retreat in Stars Group stock gives investors who missed their chance earlier in the year to search for entry points. A broader sell-off in global markets due to the Turkish lira crisis could also exacerbate the post-earnings dip. In the long term, Stars Group still looks very attractive and is a top growth stock to hold.

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Author

aocallaghan

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