Great Canadian Gaming Corp (TSX:GC) Has a Strong Q2: Why Isn't the Stock Soaring?

Description

Great Canadian Gaming (TSX:GC) released its quarterly results this week, and despite showing significant sales and profit growth, the stock hasn't gotten much of boost since. Sales were up 90% for the quarter, and the company's earnings climbed by 134%. Normally, with results like these, you would have expected the stock to see a big jump in price, but investor reactions have been much tamer.

Are expectations for high growth already priced in to the stock?

One possible reason that Great Canadian's stock hasn't soared on these results is that investors are already paying a premium for it, and that high growth is already expected. As of Wednesday's close, Great Canadian would have been trading at a multiple of just 20 times its earnings, which is hardly what you'd expect for a stock that has such high growth.

Great Canadian still hasn't realized all the growth opportunities that it has coming down the pipe, and if it's doing this well already, the potential could be even greater down the road.

When it comes to growth stocks, typically we see multiples north of 30 times earnings, not 20. What this suggests to me is that the share price has been impacted by a bigger issue.

Is the stock too risky?

What I believe is keeping investors away from the stock is B.C.'s focus on anti-money laundering, especially in light of a recent report that confirmed that illegal money made its way through B.C. casinos. The spotlight has been shined on the issue, and River Rock, which is Great Canadian's crown jewel, is right at the centre of it.

Attorney General David Eby is looking to get to the bottom of the issue and trying to keep illicit money out of casinos. The problem for investors is that this presents a lot of uncertainty around the stock and the impact it could have on Great Canadian and its locations.

The repercussions from a negative report could be problematic for the company, as not only could it impact future sales, but future growth opportunities as well. However, it’s still too early to know what will happen, but that unknown factor is likely weighing heavily on investors, as it could have a big impact on the share price.

Bottom line

While there’s no questioning the tremendous growth potential that Great Canadian possesses today, the risk may, unfortunately, offset a lot of that excitement. In the past year, the share price has risen by around 50%, but in the last three months it has declined by more than 9%.

Until the money-laundering issues are sorted out, investors will likely remain on the sidelines. Although the company is doing well today, in a world of expectations and forecasts, that simply isn’t enough to make Great Canadian a good buy, especially since a big correction could wipe out any capital appreciation.

However, given how important gaming revenues are for the province, I’m skeptical that we’ll see big changes come out of these issues, since a drop in sales will not only hurt Great Canadian, but the province as well. And for investors that are able to stomach the risk, Great Canadian could be a bargain buy.

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