Are You Ready to Take a Gamble on The Stars Group (TSX:TSGI)?

Description

Over the course of the past month, **The Stars Group** (TSX:TSGI)(NASDAQ:TSG) has seen its stock price tumble by over 17%, despite the belief by many that the company is an excellent long-term investment option.

Stars Group's incredible appeal to investors stems from several recent developments.

First, there's the growing popularity of online gambling games that are specifically targeting younger audiences that are wielding smartphones. This is a market that is largely untapped when compared to the typical older demographic that online gambling operations have targeted in the past.

Second, we're witnessing a loosening of regulations around online gambling in several markets worldwide, such as in India and the U.S., where coincidentally, the Stars Group has in the past targeted specifically as expansion markets.

Finally, we're also seeing a consolidation in the market. The Stars Group's acquisition of SkyBetting was just one of several potential deals that the company was linked to, and the market opportunities, as well as cost synergies, have yet to fully materialize.

Turning back to that recent drop in price, let's take a quick look at why the stock dropped and determine whether the Stars Group is still a good investment

Why did the Stars Group drop?

There are two main reasons behind the recent pullback in the stock price.

The first reason has to do with the announcement that the company made a little over a month ago that it would be issuing 52 million common shares. While the reason for the issue was to convert all of the convertible outstanding shares, the end result is a drop in price.

The second reason has to do with the Stars Group's quarterly results, which came in earlier this month. While the earnings contained positive news, they also showcased much greater than expected

US$154 million loss, largely because of the share issue.

Revenue for the quarter came in at US$411 million, and gross profit was US$327.875 million, both showing significant improvement over the US$305.3 million and US252.637 million reported in the same quarter last year.

In short, the US$154 million net loss was a stark difference over the US$66.4 million that the company earned in the same quarter last year.

On a per-share basis, the company posted a loss of US$1.01 per share.

A significant portion of the loss can be attributed to the higher costs incurred by the company, including acquisition-related costs of US$35.79 million, increased salaries due to a larger number of employees and a 75% increase to the sales and marketing budget over the same quarter last year.

Should investors be concerned?

I've always maintained that the Stars Group is an incredible long-term growth option, and the key point there to keep in mind is *long-term*. If we look at the dismal performance of the past month, we see that the Stars Group is actually trading 27% higher year-to-date — a trend that is likely to continue for some time. If we expand further out to see the gains over a full calendar year, the Stars Group shows an impressive 71% gain.

The recent pullback in price provides an excellent opportunity for those investors that missed the opportunity in the past year to jump onboard at a discounted rate before the stock begins to take off again.

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