Great Canadian Gaming Corp (TSX:GC) Shares Have 50% Upside

Description

Every now and then, the market will give investors the gift of a misunderstood company.

These types of situations don't come around very often, but when they do, we must take advantage. The opportunity may only last weeks — or even days — before the rest of the market figures it out. Other investors get in, bid the price up, and the easy returns are gone.

You don't want to miss out on that.

I believe such a scenario is happening today with casino operator **Great Canadian Gaming Corp** (TSX:GC). Here's why I think shares go much higher in the next few months.

The opportunity

Over the last decade, Great Canadian Gaming has been one of Canada's top growth stocks.

Revenue has increased from $388 million in 2008 to $614 million in 2017. Net profits went up even more, soaring from $14 million to $84 million. The company significantly expanded its footprint during that time, including acquiring locations outside of Canada. These days, Great Canadian Gaming has 24 locations within Canada and four in Washington State. Most of its assets are located in British Columbia and Ontario.

The company, along with various partners, recently acquired a package of casinos located in the Greater Toronto Area. It bought a 49% stake in three casinos located directly in the GTA, and a 55% ownership share of four casinos located west of the area. As part of this agreement, the company will be the operator of these seven facilities.

In addition, Great Canadian Gaming is about to open a new casino in Peterborough. It owns a 90.5% stake in that project.

Management has big plans for these new properties. Some $2 billion is scheduled to be spent on updating the facilities and making certain additions.

Perhaps the way to best illustrate this are profiling the long-term upgrades planned for Woodbine, which is probably Toronto's most visible casino. Planned additions include a conference centre, hotels, a plethora of retail and dining options, and expanded gaming operations. The company has already taken steps to expand the gaming options available at Woodbine, including adding table games.

Recent results

The recent acquisition has greatly impacted the company's top and bottom lines before even embarking on any improvements.

The most recent quarter showed just how transformational the acquisition truly was. Revenue increased a total of 76% versus the same quarter a year ago. Net income also saw an impressive boost, increasing from $0.43 to $0.69 per share, a 60% increase.

Results in the upcoming quarter may be even more impressive as they will incorporate the expanded gaming operations at Woodbine. The new casino is scheduled to open in Peterborough, too.

Analysts have upped their earnings expectations accordingly. The bottom line is expected to hit $2.57 per share this year and increase to $2.73 per share next year. This puts shares at just 15.7 times forward earnings expectations.

Great Canadian Gaming shares have spent much of the last year trading above 20 times earnings. If the company's shares trade at 25 times earnings, they could go as high as $68 each, representing upside potential of more than 50%.

If any stock warrants an aggressive p/e ratio, it's Great Canadian Gaming. In 2011, the company earned just $0.31 per share. It has managed to grow its bottom line substantially while buying back some 20 million shares. There aren't many success stories like that out there.

The bottom line

Right now, Great Canadian Gaming shares are in wait and see mode. It must show the market it can operate these new properties successfully. After another quarter or two of great results, investors should see their shares go much higher.

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Date
2025/07/05
Date Created
2018/11/03
Author
nelsonpsmith