3 Takeaways From Great Canadian Gaming Corp's (TSX:GC) Strong Q3

Description

Great Canadian Gaming (TSX:GC) released its third-quarter earnings on Monday. Sales of over $343 were more than double what the company generated a year ago, while Great Canadian's earnings nearly tripled, as it enjoyed a higher profit margin as well.

Overall, it was a very strong quarter for the company, and below are my three takeaways from the performance.

Recent deals have fueled the strong results

The company has been busy making deals over the past year, and the quarter's results included some of those recent acquisitions.

Great Canadian president and CEO Rod Baker stated in the release, "Our third-quarter results reflected a full three months of operations from the West GTA Gaming Bundle, which is under Great Canadian's management since May 1, 2018, and approximately one month of new revenues for Casino Woodbine generated from the introduction of table games and additional slot machines."

The company attributed the impressive growth in the quarter to new locations, which is both good and concerning. While it is good that Great Canadian has had success in integrating the new properties and that their development is going well, it suggests that organic growth has been limited.

In its release, Great Canadian did not specify how much growth came organically and how much was related to its new operations.

More growth is on the way

As well as Great Canadian did this quarter, investors can expect more of the same in future quarters. Further in the release, Mr. Baker stated, “Significant phased transformations for the West GTA Gaming Bundle properties have commenced. Table games are expected to be introduced by the end of 2018 at Elements Casino Mohawk, followed by a complete renovation of the second floor to further expand slots and tables, including VIP gaming.”

There’s clearly still a lot that Great Canadian has planned for its properties, and that should have investors excited for what the future might hold.

Disciplined financials should earn trust from investors

Oftentimes, when a company sees tremendous sales growth, it also sees costs rise exponentially as well. However, that wasn’t the case with Great Canadian, as a lot of that extra revenue flowed through to the bottom line.

The company did a good job of ensuring that its financials weren’t straddled with unnecessary costs, even acquisition-related costs that it could have justified. Great Canadian’s adjusted EBITDA number, which includes key operational costs, had improved by 124% on revenue improvements of 115%.

By keeping its costs down, even in a high-growth period, Great Canadian should be commended for its efforts, and investors should trust that the company will do a good job of managing their money.

Is Great Canadian a buy on these results?

In the past three months, Great Canadian’s stock has dropped by more than 11%, and this could be just what the company needs to get it out of this nosedive. Although a strong Q2 didn’t give the stock a boost, another impressive quarter could be what’s needed to finally get investors on board.

While the stock is trading at nearly five times its book value, a price-to-earnings ratio of less than 25 suggests that it could be great value for the amount of growth that the company offers.

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