



## Why Stars Group Inc (TSX:TSGI) Is a Great Buy After a Strong Q3

### Description

**Stars Group** (TSX:TSGI)(NASDAQ:TSG) released its third-quarter results on Wednesday. Results continued to show terrific sales growth, but, unfortunately, profits have struggled to keep up. Let's take a closer look at how Stars Group did during the quarter and see why there was such a disconnect between the top and bottom lines.

#### Sales up more than 73%

At a high level, Stars Group showed strong growth with its top line showing a big jump year over year, as acquisitions helped drive the improved results.

In its international segment, Stars Group saw poker-related revenue decline nearly 4% from a year ago, but gaming and betting revenues were up 29% and 80%, respectively.

While investors might be alarmed that the company behind the popular PokerStars brand is seeing sales in poker drop off, it's not a big decline, and it's been more than offset by the gains in other segments.

Diversifying its revenue streams is important for Stars Group to do to ensure it isn't overly reliant on just poker to grow its business. While poker sales made up more than 60% of the company's international revenue this past quarter, that's an improvement from a year ago when poker made up 67% of the top line.

#### Stars Group has done a good job growing and still has a lot of potential

In its earnings release, Stars Group highlighted some of its recent acquisitions and all the different markets it has been expanding into: "We completed our acquisition of Sky Betting & Gaming, which was cleared by the CMA in October, making us the leader in the U.K. online betting and gaming market. We also launched BetEasy in Australia and sports betting in New Jersey."

The U.S. market, [now that it is open for business](#), could lead to even more growth opportunities for the stock down the road.

### **Why investors shouldn't be discouraged by the drop in earnings**

The big downside on its performance this past quarter was that for all the sales growth, Stars Group saw its net earnings decline by a whopping 87%. However, with many acquisitions and costs related to expansion, Stars Group is going to incur a lot of added expenses along the way, but over time we should see it generate some efficiency and be able to get back to a much stronger profit margin.

While the company's international segment generated an adjusted EBITDA margin of over 51%, its U.K. segment generated just 17%, while Australia had a negative margin of more than 9%. As these markets continue to develop and evolve, Stars Group will continue to get better and its financials will improve overall.

### **Is Stars Group a buy on these results?**

There is a lot of reason to be optimistic about the future for Stars Group, as the company has many avenues to grow, especially when it comes to online betting and gaming.

With the stock recently hitting a new 52-week low, it could be a prime opportunity for investors to get in on the stock at a very good price. Year to date, Stars Group has [declined](#) by 10%, but this isn't a stock that I'd bet against over the long term.

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