Are Gaming Stocks a Good Bet in 2019?

Description

Stock market turbulence and the spectre of slower growth in 2019 has some economists and analysts uttering the dreaded “R” word. Several of the top U.S. banks, **JPMorgan Chase** and **Bank of America** among them, have both released reports in recent weeks that have raised the chances of a recession occurring by 2020. JPMorgan sees a 35% chance of a recession in 2019, which is up from 16% in March.

The International Monetary Fund is also raising red flags. BlackRock, the world’s largest money management firm, puts the chances of a 2019 global recession at 19%. This figure rises to 54% by 2021. The company has urged clients to re-balance their portfolios in anticipation of the potential economic storm.

Last week, I’d discussed why many of these signs were bullish for gold. However, other investors may want to explore stocks that have the potential to wade through a recession and possibly thrive.

So-called sin industries, which include alcohol and tobacco, have performed well during economic pullbacks. Gambling, however, generally declines during rough periods. However, some studies have shown a marked increase in lottery participation during harsh times.

Does that mean investors should steer clear of gambling stocks in 2019? Let’s take a snapshot of two of the top options available on the TSX in this sector.

Great Canadian Gaming (TSX:GC)

Great Canadian Gaming stock had dropped 5.2% month over month as of close on December 13. Shares were still up 42% in 2018 so far. Great Canadian Gaming has laid out ambitious expansion plans following its breakthrough in winning the GTA Bundle.

In the third quarter, Great Canadian Gaming saw revenues surge 124% year over year to $343.2 million. This was primarily due to the inclusion of revenues from the GTA Bundle. Net earnings rose 96% from the prior year to $52.6 million, or $0.86 per share. A recession is a troubling proposition, but the GTA Bundle will serve as a revenue machine over the next two decades. The upside at Great Canadian Gaming remains extremely high in the long term.

Great Canadian Gaming stock has retreated from overbought levels in early November and is a reasonable addition for investors on the hunt for growth in the long term.

Stars Group (TSX:TSGI)(NASDAQ:TSG)

It has been a tale of two halves for Stars Group in 2018. The stock rose steadily in the first half of the year and reached an all-time high of $51.75 in June. However, the gains from the Supreme Court decision on legalized sports betting were largely priced in, and by July the stock was experiencing significant volatility.

Shares of Stars Group were down 28% over a three-month span as of close on December 13. In late November, I'd discussed why it is not time to give up on Stars Group, especially as a gaggle of U.S. states are set to introduce legal sports betting in 2019. In the first nine months of 2018, Stars Group has reported total revenue of $1.37 billion, up 44.6% from the prior year. Adjusted EBITDA has climbed 19.5% to $541 million.

Stars Group stock last had an RSI of 32, which is close to oversold territory at the midway point in December. The company is well positioned to post improved numbers in 2019, even in the face of economic turbulence. The stock looks like a bargain as we look ahead to the new year.

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