# Investors: This Unloved Tech Stock Could Double (or More!) in 2019

## Description

From about 2011 to just recently, it seemed like the tech sector was all the pundits would talk about.

As each new technology giant had their IPO, many investors got a serious case of FOMO — fear of missing out. These were a new generation of blue chips, great companies with seemingly limitless growth potential ahead. These stocks needed to be added to their portfolio no matter what the cost. Thus, investors were paying huge valuations on a price-to-earnings basis.



Things have changed recently, however. Many of these former high-flyers have come crashing down to earth. Some have fallen so much they've landed squarely in value territory.

Now is the time for investors to go shopping. The FOMO folks had one thing right; these are some truly wonderful businesses. Now that they're trading at value prices, investors should be backing up the truck.

Perhaps my favourite Canadian tech stock today is **The Stars Group Inc.** (TSX:TSGI)(NASDAQ:TSG). Here's why I think it's a screaming buy today.

### A fantastic business

The Stars Group operates various online gaming platform, including PokerStars, Full Tilt Poker, and, most recently, Sky Betting and Gaming. The company started out as just a poker platform, but has successfully expanded into both casino games and sports betting over the last couple of years.

Let's start with PokerStars, which is the world's largest gathering for online poker players. No other platform is even close, as PokerStars has eight times the volume as the second-largest company. This size advantage makes all the difference. Gamblers are always going to be attracted to the largest game.

Casino games and sports betting were nice additions. All gambling is a volume business — especially when done online — but poker is especially so, as the company only gets paid on the number of hands played. Other types of gambling diversified income away from poker as well as attracting non-poker players to the platform.

Together, these businesses create fantastic margins. In its most recent quarter, the company reported adjusted EBITDA margins of just over 51%. It's pretty easy to make money when your only real expenses are technology and staffing.

**A great valuation**

Many investors make the mistake of valuing a tech company like The Stars Group using earnings. Free cash flow is the much better metric.

When the company makes these large acquisitions, almost all the cost paid is in goodwill. There aren't many physical assets for it to buy. Over time, that goodwill is written off, which counts as an expense on the income statement, but no cash actually goes out the door.

In the company's fiscal 2017, it earned US$1.27 per share in traditional earnings. Free cash flow was US$3.03 per share, which is a massive difference.

Through the company's first three quarters in 2018, it posted US$140 million in free cash flow, a number driven down by various one-time items caused by the Sky acquisition. Look for this number to rebound in 2019.



The company isn't projecting its free cash flow next year; however, analysts are bullish. They're calling for adjusted earnings (an approximation of free cash flow) to come in at $3.07 per share. Remember, TSGI trades at just over $22 per share on the TSX today.

**The potential difference maker**

There's one potential growth market that The Stars Group is eyeing with glee.

Many investors think the U.S. approving online poker and sports betting nationally is only a matter of time. The potential tax revenue is just too lucrative.

The Stars Group is well positioned to grab a big chunk of that market. It has already taken baby steps into the country, including getting approval to operate in New Jersey. It also has entered into a partnership to operate in Pennsylvania, and Nevada is a likely next step.

If online gaming is approved across the United States, The Stars Group shares will likely see a big rally.

**The bottom line**

The Stars Group is a great business trading at a rock-bottom valuation. If the company can do what analysts estimate and generate $3.07 per share in adjusted earnings in 2019, shares will need to trade at just 14 times those earnings to double from today's price. That's still a very reasonable valuation.

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