Online Gaming: The House Always Wins, But Can You?

Description

People across the world are now unwittingly addicted to the screens they carry around in their pockets all day. While most people are probably on social media most of the time, a growing number of mobile internet users are playing games, especially casino games. Depending on where they live, these games could be played with real money, real stakes, and legitimate casino rules.

The global market for online gambling and games like poker, blackjack, rummy, and bingo is currently worth an estimated $143 billion. Industry experts expect the market to expand 11.8% every year for the next five years, which means the market could be worth $280 billion by 2023.

It's a massive sector with growing potential. As more countries relax the rules on online gambling, internet penetration and disposable incomes in emerging markets rise, and users get increasingly comfortable with paying for virtual goods and games, companies in this sector could be in for a windfall.

One of these companies is Toronto-listed **Intertain Group** (TSX:ITX). With a market cap of over $215 million and annual revenue of $509 million, the company is one of the biggest pure-play online gambling stocks in the country.

Most of the company's revenue is generated across the pond in Britain. Due to its relaxed gambling regulations, the U.K. is by far the largest market for online gambling and bingo. This was part of the reason Intertain decided to strike a deal with London-based **Jackpotjoy PLC** (LSE:JPJ).

JPJ is now the indirect parent organization of Intertain, which gives the Canadian firm access to tremendous resources. Shares with the ticker ITX can be exchanged for shares in **Exchange Co.**
, a holding company that controls shares in JPJ.

JPJ is the market leader in online gambling that is not targeted at men. Instead, most of its games are based on bingo. Because of this, 71% of the company's customers are female.

With less competition in bingo-led games, JPJ holds 23% market share. According to the company's most recent filings, revenue and earnings before interest, taxes, and depreciation (EBITDA) are up 13.8% and 12.4%, respectively, compounded over the past three years.

However, the company has been making a net loss over the past few years. Revenue and earnings from its core Jackpotjoy division are down this past quarter, while growth seems to be coming from Vera&John, a smaller division of the group.

In a recent statement, the company's management admitted that revenue growth would continue to come under pressure until the second half of 2019. In a high-growth market like online gambling, this outlook is worrisome.

Add to this the fact that Spruce Point Capital, an activist hedge fund, highlighted some red flags in Intertain's accounting before the acquisition makes the picture murkier. Intertain's leadership team now controls the combined venture.

Intertain is a company with a convoluted ownership structure, operating in a tightly regulated foreign market, with unpredictable earnings. Although the macroeconomic shift to online gaming and digital gambling is interesting, I don't think Intertain is the best way to gain exposure.

The house may indeed win here, but shareholders should stay away.

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Date
2025/07/28
Date Created
2019/01/19
Author
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