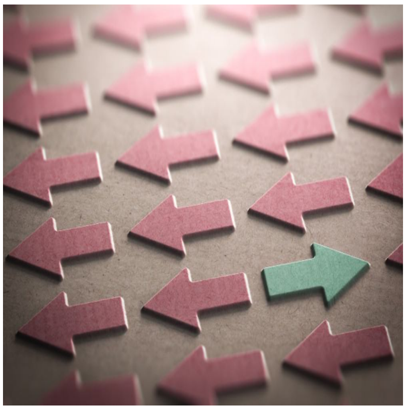

This Unloved Stock Could Double in 2020

Description

When considering an investment, I often think back to Warren Buffett's golden rules on the topic. Buffett has been recommending investors look for a terrific business with substantial barriers to entry for so long now, it's easy to forget the Oracle of Omaha's sage advice.

This helps me when pondering a new investment in a currently unloved stock. It allows me to see past short-term issues and to the core of any investment thesis. Does this company have a distinct leg up on the competition? Will it maintain its current competitive advantage? Can it easily be disrupted by a new entrant in the sector? If these questions can be answered satisfactorily, then a stock is a candidate for further research.

I believe there's one Canadian company that checks off all these boxes yet is flirting with a 52-week low because of short-term concerns. This stock is poised to double (or even more) over the next 12-18 months. Let's take a closer look.

A great business

There's a lot to like about **Stars Group** (TSX:TSGI)(NASDAQ:TSG), which is the owner of online poker brand Pokerstars as well as recent acquisitions Sky Betting and Gaming and Bet Easy.

Let's start with the poker business. Yes, that part of the company is showing some weakness lately, with revenue down more than 12% thus far in 2019. But much of that weakness is due to the strong U.S. dollar — something that has been haunting the company for years now. Without the impact of the currency, poker revenue was only down 5.7% during that time.

Remember, Pokerstars still has a dominant position in the poker business, and serious players will ultimately flock to the platform that offers them the best experience. I trust the recent weakness in the poker business is only temporary. And at some point, the company will get a boost from a falling U.S. dollar.

The existing Pokerstars business is also one of the more profitable ones you'll find, at least on an

EBITDA basis. The division regularly posts EBITDA margins in excess of 45%. There aren't many industries that can offer similar profit margins.

The company has expanded into both the U.K. and Australia with recent acquisitions of Sky Betting and Gaming and Bet Easy, respectively. Both these businesses are doing well. Remember, both of these acquisitions solidify the company's presence in both casino games and sports betting, further diversifying the organization away from poker.

Put all this together, and you get a gaming conglomerate that's poised for long-term success, even though it may experience a little short-term pain first. The company cut its earnings expectations for the rest of 2019 but told investors it still expects to generate adjusted profits of between US$1.68 and US$1.83 per share. Analysts also see a big jump in 2020 earnings, projecting next year's results to be approximately 20% higher than 2019's numbers.

Shares are cheap

Stars Group shares trade hands at 8.4 times earnings at the bottom of 2019's earnings guidance. If we assume the company earns US$1.83 per share in 2019, that puts the stock at just 7.7 times forward earnings.

Shares are even cheap on a price-to-book value perspective, with shares trading just slightly over stated book value. Sure, book value might not be so important for a tech company, but it still goes to show how cheap the stock is. Virtually no other tech stocks trade anywhere close to their book values.

Ultimately, Stars Group is a sentiment stock. Shares are depressed today because investors have run away from a company with weak short-term results. But if management can turn the company around, shares will inevitably go much higher. It was only a year ago that shares on the TSX were trading for above $35 each, which is approximately double the current share price.

If investor sentiment changes, I don't see why shares wouldn't go that high again. Especially if the company can make further inroads into the United States, which is a big potential market.

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