



Should You Finally Bet on This Gaming Stock?

Description

One of the most misunderstood stocks on the market that continues to hold a massive amount of potential is **Stars Group** (TSX:TSGI)(NASDAQ:TSG). I realize that seems like an odd statement to make considering that Stars Group is down nearly 50% in the past year and released less-than-favourable quarterly results earlier this month, but as you will see in a moment, Stars Group really is a long-term diamond in the rough.

Let's talk about those results...

Earlier this month, Stars Group reported earnings for the second quarter of 2019. Revenue saw an impressive bump to \$637 million, reflecting an increase of 51.4% over the same period last year. Adjusted EBITDA also witnessed a handsome jump of 25.9% over the prior period, coming in at \$432 million.

Despite those gains, what most investors focused on was the guidance update that was announced. Stars Group is now forecasting sales for fiscal 2019 to come in at US\$2.5 billion to US\$2.575 billion, with adjusted earnings per share coming in at US\$1.68 to US\$1.83 per share. This represents a downward revision from the US\$2.64 billion to US\$2.765 billion in sales and US\$1.87 to US\$2.11 adjusted earnings per share previously announced.

The reason for the revision was primarily attributed to the cost of acquisitions as well as stricter enforcement across several markets in Europe.

Where exactly is that potential?

As I mentioned above, Stars Group has a bevy of long-term opportunities that are beginning to materialize. A decision by the U.S. Supreme Court that struck down a sports gambling federal ban earlier this year opened the door for Stars Group to get the approvals it needs to operate in different state markets. So far, Stars Group has secured market access to 20 states, and regulatory bodies are pushing to gain those approvals (and by extension, the tax opportunity that comes for the ride).

Stars Group is expecting to run with a net loss of \$40 million within the U.S. market, primarily attributed to licensing costs, getting the platform developed, and marketing around the new brand: Fox Bets. By its own admission, a breakeven point within the U.S. market is not expected until 2022.

Also worth noting is Stars Group's US\$4.7 billion acquisition of U.K.-based Sky Betting and Gaming. The deal vaulted Stars Group into a new league of the largest sports betting companies on the planet, but integrating Sky and realizing the claimed synergies from the deal is taking longer than expected.

"Sky Bet by Stars" — the integrated operation of Sky and the existing BetStars — is rolling out slowly. A rollout to the Italian market came earlier this year, and an expected launch in Germany is expected within the next few months. Unfortunately, there's no word on the timeline for the lucrative U.K. market, but it can't be too far behind.

An important point to note with all of these initiatives is that Stars Group is executing one of the most vocal concerns of its critics — it's diversifying away from online poker, which now represents a third of revenue.

What does this mean for investors?

Stars Group has a strategy in place, and the company is executing it. As for the recent pullback in the stock price, that may seem more of a knee-jerk reaction to the guidance update. Longer term, the prospects remain huge for Stars Group, and investors with a tolerance for some short-term risk could be [rewarded handsomely](#) for their [long-term patience](#).

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Date

2025/07/06

Date Created

2019/08/29

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