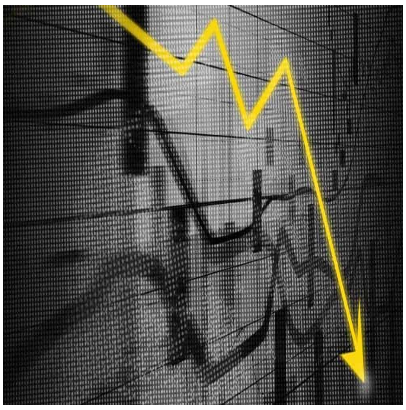

Great Canadian Gaming (TSX:GC) Stock Is Trading Close to its 52-Week Low: Is it a Buy?

Description

Shares of **Great Canadian Gaming** (TSX:GC) have been on a tear in the last three years. The stock has returned 87% since October 2016. GC is trading at $41.74, which is 8.6% above its 52-week low and 26% below its 52-week high.

Despite GC's stellar returns in the last three years, the stock has underperformed broader markets in 2019. Great Canadian Gaming has lost 14% year to date and is down 25% since March 2019.

So, does the recent pullback make the stock an attractive investment at its current price?

Strong revenue growth

Great Canadian is a domestic gaming company with entertainment facilities in British Columbia, Nova Scotia, Ontario, Washington State, and New Brunswick. It has around 20 gaming properties, including 10 casinos, four racetracks, and three community gaming centres.

Analysts expect Great Canadian Gaming to increase sales by 10.2% to $1.35 billion in 2019. They expect sales to rise by 9.7% to $1.48 billion in 2020. Comparatively, its earnings per share are estimated to grow by 7.7% in 2019 and then fall by 2.1% in 2020. GC is estimated to improve earnings growth at an annual rate of 9.8% in the next five years.

Great Canadian increased earnings by 21% annually in the last five years when its stock rose 105% since October 2014. GC stock is trading at a forward price-to-earnings multiple of 15.2, which makes the stock overvalued, considering its long-term earnings growth.

We can see that the pullback witnessed since March was warranted.

Focus on revamping its business

We know that Great Canadian Gaming has tried to revamp its business in the last few years. The company has spent money on renovations and the introduction of additional games. It has also looked to increase food and beverage options across locations, which are expected to result in more sales per customer.

The upgraded facilities will attract new customers and increase foot traffic at several locations. This will have a direct positive impact on GC’s revenue. Analysts expect GC to increase capital spending from $197 million in 2018 to $288 million in 2019.

What next for Great Canadian Gaming?

In the June quarter, GC completed the sale of its wholly owned subsidiary Great American for $73.4 million. It resulted in a gain of $47 million for GC. Now, the company intends to focus on core growth markets to successfully execute its operational and developmental plans going forward.

GC is going to launch its new casino resort in Pickering, Ontario, which will be named Pickering Casino Resort. Great Canadian Gaming claims that the resort will be world class and expects the casino building to be completed by the first quarter of 2020.

Further, GC has also expanded its gaming facility at Elements Casino Mohawk in May this year. This facility now features 1,500 slot machines and 60 table games.

The verdict

GC generates a significant portion of sales from gaming and casino facilities. Though there will always be demand for casinos, GC will have to spend a substantial amount in renovations as well as opening new centres. This puts a strain on cash flow and profit margins.

We can see that GC’s bottom line in 2020 is expected to decline, despite strong growth in sales. Great Canadian Gaming is also overvalued at the current price and might correct significantly in a downturn.

The stock is a “hold” rather than a “buy.” Analysts have a 12-month average target price of $50.5 for GC. This is 21% higher than the current price.

CATEGORY

1. Investing

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Investing

Date
2025/09/30
Date Created
2019/09/28
Author
araghunath