



This Surprising Stock Grew \$10,000 Into \$45,119 — and Still Has Room to Run

Description

It's been a nice five years for **Pollard Banknote Ltd** ([TSX:PBL](#)).

The company has emerged as a leading designer, supplier, and distributor of instant lottery scratch tickets. It has successfully expanded into digital solutions, helping lotteries create additional revenue opportunities by letting folks wager online.

There are a number of advantages to focusing on scratch tickets. This part of the lottery market is still growing, while draw-based games are seeing revenue flatten.

Pollard's ability to design compelling scratch ticket games will help underlying governments increase lottery revenue. The company can further fuel growth by introducing these games in other jurisdictions.

Prominent customers include the Western Canada Lottery Corporation, Ontario Lottery and Gaming Corporation, and various state lotteries in the United States, including Texas, Michigan, North Carolina, and Arizona, with the possibility of winning more contracts as they come up for bid. It has also successfully expanded overseas, winning Norway's instant ticket contract.

The company has also been on a bit of an acquisition spree lately, gobbling up assets such as Diamond Play, which makes interactive gaming terminals. It also purchased International Gameco, which makes pull tab tickets used to help charities raise extra cash.

The future

One of the reasons investors are so bullish on Pollard is the company has many different ways to grow.

The obvious growth paths include introducing new types of scratch-off tickets (and then moving those successful games to other places), as well as getting the contract to supply scratch tickets to new jurisdictions. These big wins will lead to nice improvements on the top line.

But there are also many smaller prizes available. Pollard has emerged as an expert in merchandising

lottery areas in stores, creating eye-catching spaces that draw in folks who don't normally buy scratch tickets. Thus far, this is just a service limited to the lottery area, but it could easily be expanded into other areas of the store.

There's also the potential for selling lottery tickets online. Michigan is a great example of just how lucrative this can be. In 2015, when the state introduced the service, it sold approximately US\$150 million worth of lottery tickets online.

That number skyrocketed to nearly US\$800 million by 2018, with further increases projected for 2019. It didn't really affect print sales either, as the internet model appealed to a younger generation. Pollard now offers internet lottery services to additional states, with more poised to jump on the bandwagon.

Financial results

Pollard has posted excellent growth numbers over the last [five years, which is the](#) chief reason why the stock has done so well.

In 2014, top line sales totalled \$214 million, which ballooned to \$332 million in 2018 with further increases expected in 2019. Adjusted EBITDA has nearly doubled in the same period, increasing from \$26 million to \$48 million.

The company is also a strong producer of free cash flow; approximately 50% of adjusted EBITDA was converted to free cash flow in 2018.

Analysts remain bullish looking forward, too. Adjusted earnings are expected to flirt with \$1 per share in 2019, further increasing to \$1.08 per share in 2020 and putting shares at a pretty reasonable 19 times forward earnings multiple.

Investors should be happy with Pollard's results over the last five years. A \$10,000 investment in the company is now worth \$45,119, assuming all dividends were reinvested. That's one of the [best performances](#) on the entire **Toronto Stock Exchange**.

The bottom line

With a history of growth and reasonable expectations that growth will continue, Pollard Banknote is a great investing choice today. Shares trade at a reasonable valuation too, and even pay a small dividend.

There's no guarantee that shares increase another 300%, of course, but I like this company's chances of creating long-term wealth for shareholders, even after such a run-up.

CATEGORY

1. Dividend Stocks
2. Investing

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1. TSX:PBL (Pollard Banknote Limited)

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