Why Did Great Canadian Gaming (TSX:GC) Stock Fall 7.5% Yesterday?

Description

Shares of **Great Canadian Gaming** (TSX:GC) continue to lose market value in 2019. Investors have lost 22% year to date, and the stock fell by a considerable 7.5% yesterday.

The company announces Q3 results

On November 4, GC announced its third-quarter results and reported sales of $341.1 million — a rise of 3% year over year compared to sales of $332.7 million in the prior-year period. Adjusted EBITDA rose 3% as well to $142.3 million, while adjusted earnings were up 3.8% to $0.82 per share. Comparatively, analysts estimated the company would post sales of $342.5 million with EPS of $0.70 in the September quarter.

In the first nine months of 2019, GC sales rose by 18% year over year to $998.3 million. The company attributed this growth to the expansion of gaming and non-gaming amenities in the Ontario properties. This growth was partially offset by extreme weather conditions in the first quarter of 2019 that negatively impacted guest attendance at the gaming facilities.

Ontario accounts for the majority of GC's sales. In the third quarter, sales from this region accounted for 66% of total revenue, while British Columbia and Atlantic Canada accounted for 26.5% and 7.5%, respectively, of sales. While Ontario sales rose 5% in Q3, British Columbia saw sales fall by 2% year over year, and Atlantic Canada experienced growth of 2%.

GC continues to invest heavily in its gaming properties to attract customers. It aims to transform Casino Woodbine into an international destination casino resort and develop a world-class casino resort in the Durham region located in Pickering, Ontario. The Pickering casino building will be completely functional by the end of 2020.

Several facilities will see expanded gaming offerings, renovations of existing floors, and integration of gaming facilities with horse racing operations. GC is also looking to add a mix of premium hospitality and entertainment amenities to enhance the customer experience.

Gaming revenue is the key driver and accounts for the majority of sales. Hospitality is the second-largest business followed by racetrack, lease, and other revenues.

While the company reported sales just below consensus estimates, investors were worried over the acquisition of non-controlling assets in GC's Ontario partnerships. According to the press release, "On November 4, 2019, the company completed the acquisition of certain non-controlling interests in its Ontario partnerships. As a result, the company now owns 100% of OGWGLP and 50% of OTG."

What next for GC and investors?

In September this year, I had warned investors about GC and its declining bottom line. Building and maintaining top-class gaming and casino facilities is capital intensive and puts a huge strain on the bottom line.

Great Canadian Gaming's focus on expansion will mean that its earnings are estimated to fall by 9.9% in 2020. In the next five years, analysts expect earnings to grow at an annual rate of 9.8%. Comparatively, GC managed to grow bottom line by 21% annually in the last five years.

Due to its strong earnings expansion, GC stock rose from $15.2 in December 2015 to $55.5 in June 2018. The stock is currently trading at a forward price-to-earnings multiple of 15.5, indicating that it is reasonably valued given the long-term earnings forecast. But the stock might be vulnerable in the short term due to the above-mentioned reasons.

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
2019/11/06
Author
araghunath