Great Canadian Gaming (TSX:GC) Stock Just Gained 34% on Acquisition News

Description

Shares of **Great Canadian Gaming** (TSX:GC) soared close to 34% on November 11 after it disclosed it entered an agreement to be acquired by Apollo Funds for an enterprise value of $3.3 billion. Apollo Funds, an affiliate of **Apollo Global Management**, will acquire all outstanding shares of GC for $39 per share.

GC stock closed trading at $38.9 per share on November 11. Apollo expects other Canadian institutions to co-invest in the acquisition to become joint-equity owners. Further, Apollo said it aims to drive top-line growth at GC by expanding non-gaming facilities as well as the company's loyalty and marketing programs.

Alex van Hoek, a partner at Apollo, said, "Great Canadian is a leader in the gaming and entertainment industry and, based on our experience and knowledge of the space, we see opportunities to work with their talented team to drive additional growth and value. With an industry-leading portfolio of assets and established presence in the best geographic markets across Canada, we are excited to help bring an enhanced experience to more guests across Canada."

Great Canadian Gaming has seen a steep revenue decline

GC stock is up 116% since it touched a multi-year low of $18.05 in March 2020. The COVID-19 pandemic decimated stocks in the entertainment space, as businesses were shut and gatherings were prohibited, sending shares of Great Canadian and peers significantly lower.

In the company's second quarter, sales were down by a staggering 82.3% year over year at 62.8 million. This resulted in a net loss of $36.4 million in Q2 compared to a net income of $122.2 million in the prior-year period.

In Q3, sales fell by 87% year over year to $43.1 million, which means in the first nine months of 2020, cumulative sales decline was 62%.

GC reopened 11 properties on September 28, as lockdown restrictions were eased. However, there is a limit of 50 guests, and the company has still not resumed the operation of table games, which suggests revenue will be significantly lower in Q4 as well.

Further, several provinces mandated closure of all non-essential construction projects between April and June. This halted the remainder of GC's capital projects under development.

Revenue forecast to fall by 48% in 2020

Analysts tracking Great Canadian expect sales to fall by 62% to $514 million in 2020 compared with sales of $1.36 billion in 2021. Further, sales are forecast to reach $1.07 billion in 2021, which means it will take at least two years for GC's revenue to reach pre-COVID-19 levels.

In 2019, the company's earnings were $2.91. It is expected to post a net earnings loss of $1.81 in 2020 and a net income of $0.46 per share in 2021. Similar to the revenue, GC's bottom-line recovery will also be slow rather than steady.

GC stock is trading at a forward price-to-2021-earnings multiple of 84.6, which is expensive. It looks like Apollo Funds has paid a hefty premium for this acquisition and will hope for customer traffic to increase at each of GC's locations to stem the massive decline in sales and earnings.

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