Forget GME: This Gaming Stock on the TSX Is All Set to Explode!

Description

GameStop (NYSE:GME) stock has taken investors on a wild ride. It was trading at $5.9 a share at the start of 2020 and rose to US$17.5 by the end of last year. In January 2021, the stock touched a record high of US$483 in intra-day trading as a group of retail investors on social-media platform Reddit orchestrated a short-squeeze, resulting in this staggering rally.

GME stock then lost significant market value to trade at US$41 per share at the end of February. However, the video game retailer regained momentum this month to currently trade at US$260 per share.

GME investors are betting on a turnaround

The recent rally in GME stock is primarily driven by underlying business information as well as retail trading momentum. This week, the company announced it formed a strategic and capital allocation committee which will be led by Ryan Cohen.

Cohen was added to the GameStop board of directors in January and investors are optimistic he can stage a turnaround in the company sooner rather than later. The new committee formed is likely to explore ways of expanding GameStop's digital channels as well as revamp its current organizational structure.

However, long-term investors should note that GME was one of the most short-sold stocks for a reason. While the move towards digital gaming accelerated in the past decade, GME failed to innovate resulting in a significant revenue decline.

Despite e-commerce sales in Q3 rising four times, total revenue fell 3% year over year. Wall Street expects GameStop sales to fall from $6.5 billion in fiscal 2020 to $5.64 billion in fiscal 2022. The company is also forecast to report a loss per share of $0.21 in fiscal 2022, compared with earnings of $0.22 per share in 2020.

While GameStop has reduced its costs in order to improve its bottom-line, it will have to focus on creating a business model that is sustainable in the long run.

GME stock is valued at a market cap of $18.1 billion indicating a forward price to fiscal 2022 sales multiple of 3.2 which is not too steep.

This gaming stock on the TSX is a better bet

GME is grappling with falling sales and profitability making it a high-risk investment right now. Alternatively, Canadian investors can look to buy and hold shares of **Score Media and Gaming** (TSX:SCR)(NASDAQ:SCR) that should benefit from multiple secular tailwinds and an expanding addressable market.

The company aims to create a mobile-first sports experience and connect fans through a robust platform that combines real-time news, scores, fantasy information, and alerts. In fiscal 2021, Bay Street expects Score and Media to increase revenue by 71.7% to $35.6 million and by 79% to $63.75 million in 2022.

As more states legalize sports betting south of the border, Score Media and Gaming's leadership position and interactive product will allow it to easily penetrate these markets and drive revenue growth.

theScore Bet application was the third-most downloaded app in North America in the multisport news and data vertical. This betting app is available in New Jersey, Colorado, Indiana, and Iowa.

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