



## 1 Video Game Stock I'm Buying Next Week

### Description

The video game sub-sector has been expanding at a rapid pace over the last two decades. But it still has enticing growth prospects, making companies part of this market top bets for long-term investors. The COVID-19 pandemic acted as a massive tailwind for video game stocks, as people were confined indoors with limited entertainment options available.

Several video game stocks outpaced the broader market in the last 20 months, and this trend is likely to continue in the future, driven by rising player engagement and the worldwide transition towards a work-from-home model.

With these factors in mind, let's see why I'm bullish on **Take-Two Interactive** ([NASDAQ:TTWO](#)) right now.

### The bull case for Take-Two Interactive

Take-Two Interactive has crushed the broader market returns in the last decade. TTWO stock has gained 1,200% in the last 10 years compared to the S&P 500, which has returned 366% in dividend-adjusted gains since November 2011.

A key driver of the company's stellar growth can be attributed to its billion-dollar franchises such as *Grand Theft Auto* and *Red Dead Redemption*, as well as other popular games such as the *NBA 2K*.

Valued at [a market cap](#) of US\$20 billion, Take-Two Interactive has increased sales from US\$1.79 billion in fiscal 2018 to US\$3.37 billion in fiscal 2021 that ended in March. Similar to most other gaming companies, Take-Two also enjoys high operating leverage, allowing it to increase operating income from US\$150 million to US\$629 million in this period.

After revenue rose 9% in fiscal 2021, Take-Two's management warned of a decline in top-line growth, which dragged its stock lower earlier this year. Currently, TTWO stock is down 17% from all-time highs, allowing you to buy the dip.

According to Take-Two's management, its stock is undervalued, and during its fiscal Q2 results, the [company disclosed](#) it repurchased US\$200 million worth of shares at an average price of US\$158.67.

During the earnings call, CEO Strauss Zelnick confirmed, "This marks the first time in over two years that we repurchased our stock, underscoring the deep value that we observed in our share price."

## Recent quarterly results

In the second quarter of fiscal 2022, Take-Two's sales rose by 2% year over year to US\$853 million. However, its earnings per share fell to US\$0.09 from US\$0.86 in the year-ago period on the back of an impairment charge amounting to US\$53 million.

However, the company experienced 7% growth in recurring consumer spending as well as a 9% increase in digital sales that accounted for 91% of total revenue.

Wall Street expects TTWO sales to fall by 2% year over year to US\$3.48 billion in fiscal 2022 and then rise by 15.3% to over US\$4 billion in fiscal 2023. This will allow the company to improve its earnings per share from US\$4.86 in 2022 to US\$6.65 in 2023.

We can see that TTWO stock is valued at a forward price-to-2023 earnings multiple of 26, which is reasonable.

## The Foolish takeaway

Take-Two Interactive is trading at a discount of 24% compared to consensus price target estimates of \$214. Investors should note that game development is a resource-intensive process, but Take-Two is among the few gaming studios that has consistently developed robust products ensuring repeat purchases, high levels of player engagement, and rising in-game spending in the process.

Take-Two has a strong balance sheet, as it ended Q3 with \$2.3 billion in cash and less than \$250 million in debt, allowing the company to pursue opportunities in growth verticals, such as mobile gaming and eSports.

### CATEGORY

1. Investing
2. Tech Stocks

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