



Enthusiast Gaming Stock Zooms After its Q1 Earnings: Should You Buy?

Description

Enthusiast Gaming Holdings ([TSX:EGLX](#))(NASDAQ:EGLX) stock jumped a massive 33% on Tuesday on its better-than-expected Q1 2022 earnings. While growth stocks have tumbled in the last six months, the recent uptick in them, including EGLX, certainly brings delight to growth investors.

Along with solid Q1 numbers, Enthusiast management's commentary depicting a strong growth outlook pushed the stock higher on Tuesday. However, despite a recent breakout, EGLX stock is still trading 56% down for the last 12 months.

EGLX reports solid Q1 revenue growth

Enthusiast is a \$421 million company that operates media platforms globally for video game and esports fans. It earns revenues from its over 100 websites and 1,000 YouTube channels that contain video game-related content like blogs, news, reviews, live streams etc. The company claims that it has 300 million monthly active viewers across its suite of platforms.

Enthusiast Gaming reported total revenues of \$47 million for the quarter that ended on March 31, 2022. This was a 57% growth year over year. However, the company is still a loss-making venture. However, the management conveyed its optimism in the earnings call and announced its forecast to turn EBITDA positive this year.

Another highlight for the quarter was its gross profit margins. For Q1 2022, its gross margins came in at nearly 29% — a sequential jump from 24% in Q4 2022.

According to a *BNN Bloomberg* [report](#), RBC Capital Markets Analyst Drew McReynolds has an outperform rating on the EGLX stock with a price target of \$8. The price target implies a potential upside of 154%. After Enthusiast Gaming's quarterly earnings, he noted, "We view much better than forecast [first-quarter] results as an inflection point that showcases both the growing importance of the global gaming ecosystem and early earnings potential of the company."

A large addressable market offers high growth potential

Enthusiast Gaming operates in one of the high-growth areas. Driven by the abundant high-speed internet, approachable technologies, and demographics, the global gaming market is expected to continue to see [rapid growth](#) for the next few years.

According to Newzoo, a gaming and esports analytics and market research company, the global gaming market is expected to grow to US\$218 billion by next year from US\$175 billion in 2020. As the industry is likely to see rapid growth, the expansion will likely seep into allied areas like content and streaming as well.

Enthusiast Gaming has several revenue streams like direct ticket sales, advertising, licensing of premium content, and more. It has tripled its paid subscribers in Q1 2022 since March 2019. Along with organic growth, it is active in mergers and acquisitions. It recently completed acquisitions of Vedatis, Tabwire, GameKnot, Addicting Games, and Outplayed. In addition, the company already has partnerships with TikTok, **Samsung**, **Snapchat**, and various OTT platforms to expand its content platform.

The Foolish takeaway

Enthusiast Gaming stock could trade volatile mainly due to [broad market uncertainties](#) and fears of faster interest rate hikes. However, it offers handsome growth potential from here. The company has a strong balance sheet with little debt and a sufficient liquidity position. Enthusiast turning EBITDA positive this year will certainly be delightful for its investors. The stock should create meaningful shareholder value in that case.

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