Investors in This Gaming Stock Have Hit the Jackpot

Description

The shares of **Amaya Gaming** (TSX:AYA) have been surging ever since its IPO. In 2010, one could have bought the shares for just over $1 – now the stock is over $8. But can the shares go even further?

An attractive industry

Amaya sells gaming software and solutions to governments, casinos, hotels, cruise ships, and other legal gaming establishments around the world. This is a very attractive industry to be in, because gambling is heavily regulated, which helps ensure revenues are recurring.

The interactive gaming industry more than tripled in volume from 2003 to 2011, despite a crackdown from the U.S. government on online gambling, and is set to grow further.

The industry can be a major source of revenue to governments that are open to the idea, and there are plenty of jurisdictions that could use the money. In the United States, three states (New Jersey, Nevada and Delaware) have allowed some online gambling, and other states are considering the idea.

An aggressive company

Amaya earned $115 million in revenue through the first nine months of 2013, nearly triple the amount from 2012. Much of this growth has come through acquisitions – the two most significant ones occurred in late 2012.

In late September 2012, Amaya acquired Cadillac Jack, an electronic gaming machines supplier, for $167 million. Then less than a month later, Amaya bought Ongame, an online poker network provider, for just over $30 million. Amaya claims there are significant cross-selling and cost-reduction opportunities from both of these acquisitions.

Yet still unprofitable

Despite tripling revenue, Amaya lost $22 million through the first nine months of last year, equal to 25 cents per diluted share. This is very scary considering the company's balance sheet, which has become quite levered thanks to its acquisitive past. Total debt stands at $133 million – at the end of 2011, debt stood at only $3 million.

Despite these issues, Amaya still trades at over 5.5 times revenue, quite high even for a technology company. Clearly there is a lot of optimism the company can grow both revenue and profitability.

Foolish bottom line

Investors looking for a gaming-related stock might want to consider **Great Canadian Gaming** (TSX:GC) instead. The casino operator trades at only three times revenue, and more importantly, is profitable too. The shares trade at 15 times earnings, not a bad multiple for a company that operates in such a regulated industry.

Ironically, investing in Amaya would be a big gamble. Fortunately for the company's investors, that bet has so far paid off very handsomely. And just like a casino floor, the winners could easily keep on winning. But also like a casino floor, it's probably wise to steer clear of this company's shares.

CATEGORY

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