Should Investors Load up on Former Growth Darlings Amaya Inc. and AutoCanada Inc.?

Description

It hasn't just been oil that's suffered as the **TSX Composite Index** again flirts with negative territory in 2014.

Investors are also getting rid of stocks that are highly exposed to Alberta, like **AutoCanada Inc.** (TSX: ACQ). The company, which reached a high of more than $90 per share back in the summer, has been absolutely punished lately, falling more than 50% from its peak. It's obvious that a softening in Alberta's economy won't be good for the company, where the company gets about half of its sales.

Meanwhile, shares of another of 2014's top performers got crushed last week, but for a completely different reason. RCMP officers raided the offices of **Amaya Inc.** (TSX: AYA) on concerns that it had prematurely given investors hints about its upcoming acquisition of PokerStars and Full Tilt Poker, which was announced in June.

Let's take a closer look at each company and see whether these are just temporary problems, or reasons to avoid each company completely.

AutoCanada

AutoCanada's management realizes that it gets too much of its revenue from Western Canada. And while it has diversified into Saskatchewan over the last year, the company is still aggressively buying up auto dealerships in Alberta. Here's a quick snapshot of its revenue mix by location.

AutoCanada
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Source: Company filings

If you're a believer in oil remaining weak for 2015 and into 2016, AutoCanada will likely suffer. Layoffs will start, and as you can imagine, folks who are laid off don't normally go and buy a new truck.

But it's not all bad. First of all, older vehicles tend to need more in repairs than new ones, which is good news for the repair side. Penny-pinching customers will likely look more at used vehicles rather than new, which tend to have good margins, especially in a world where people are forced to sell used trucks they can no longer afford.

Analysts have been predicting that AutoCanada's earnings in 2015 will skyrocket to $3.42 per share. Perhaps that's optimistic, but this is an important lesson on sentiment. Early in the year when shares last traded at these levels, earnings expectations for 2014 were just a little over $2 per share. Revenues have almost doubled in the meantime, earnings expectations are up, and shares are trading at around the same level. That's pessimism rearing its ugly head.

If you're a long-term believer, this looks to be a good entry point. Just don't expect a smooth ride.

Amaya

From a fundamental perspective, there's nothing different than last week for Amaya. It's the exact same company with the exact same outlook. There's just the possibility that the authorities could find something wrong with the way the big acquisition was handled.

An important note — not one senior exec has been implicated in the case, and it doesn't appear any such punishment is coming. While it's always concerning when the RCMP and securities regulators show up, analysts are saying that this investigation shouldn't have any direct impact on Amaya's day-to-day business.

What it may affect is Amaya's reputation with government. A big part of Amaya's growth going forward will be dependent on the U.S., where online poker is currently illegal, with the exception of three states — Delaware, New Jersey, and Nevada. California looks to be close to being the fourth state to legalize it. These kinds of allegations will make it more difficult to deal with governments going forward, assuming they stick.

Although nobody has the full story, this doesn't appear to be a case of the company tipping off investors on purpose. Instead, it looks like certain investors did a nice job analyzing the clues leading up to the transaction, which began the snowball effect.

If that's the case, Amaya should come out of this ordeal with only a minimal penalty. That will present investors with the opportunity to pay $28.64 per share for a company that just reported quarterly earnings of $0.78 per share. Annualized, you're looking at a potential P/E ratio of just 9x earnings. That's an absolute steal for a company with Amaya's growth potential.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:ACQ (AutoCanada Inc.)

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