



Will Amaya Inc.'s Big Bets on the Gaming Industry Pay Off?

Description

Amaya Inc. ([TSX:AYA](#)) is making another bid for a major gambling operation after acquiring PokerStars and Full Tilt Power last year in a blockbuster deal valued at USD\$4.9 billion. This time Amaya is teaming up with GVC Holdings in an effort to purchase Bwin.Party Digital Entertainment, which operates Partypoker and has various other gambling concerns.

The bid follows a rival offer from 888 Holdings. The value of the Partypoker bid was not revealed, but sources say it could be as much as \$2 billion. This raises the question of whether Amaya is biting off more than it can chew.

Bwin.Party put itself up for sale last year following years of declining revenues. Still, analysts say it's one of the few industry acquisition opportunities currently available and buying the company would give the purchaser scale as the market tightens due to stricter regulations.

"You have to spend big on marketing and you have to spend big on product to get good traction in the market, so operators are looking for as much scale as possible," Gavin Kelleher, an analyst at Goodbody's, told the *Financial Times*. As well as Partypoker, Bwin.Party has sports betting and online gaming operations as well as bingo divisions. The sports betting operations generated \$321 million in 2014, about 38% of total revenues.

Quarterly results

In March Amaya revealed a \$26.7 million quarterly net loss compared with a net loss of \$6.8 million in the prior year quarter. Revenues soared tenfold to \$368 million largely due to the acquisition of PokerStars. Excluding items, adjusted earnings were \$85.7 million, or \$0.42 per share, beating analyst estimates of \$0.33 per share.

Analysts expect significant growth from Amaya, with revenues of \$1.5 billion in 2015 rising to \$1.8 billion in 2016. Dundee Capital Markets analyst Eyal Ofir said Amaya's Q1 revenue was in line with his expectations, but the company's bottom line was better than expectations. Ofir thinks that long term, Amaya's casino business, which in Q1 provided only a marginal contribution to the company's finances, could eventually generate as much as \$700 million in annual revenue.

To a certain extent, Amaya's fortunes are tied to its future in the United States, where online gaming is currently illegal at the federal level. That could change however, as the U.S. government eyes the potential tax windfall online gaming could produce. A successful bid for Bwin.Party would put Amaya in the catbird seat in the online gambling world, poised to jump into the U.S. market if and when the law changes. You don't have to be a gambler to see that Amaya's stock has the potential for long-term gains.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

Category

1. Investing

Tags

1. Editor's Choice

Date

2025/09/30

Date Created

2015/05/21

Author

dwatt

default watermark

default watermark