Amaya Inc.: Why You Should Buy Now Before it's too Late

Description

On the surface, **Amaya Inc.** (TSX:AYA) looks to be a screaming buy.

The company's huge acquisition of PokerStars and Full Tilt Poker back in June 2014 was a good one. According to analysts, the two poker platforms are set to propel the company to earnings of $1.85 per share this year, good enough for a forward price-to-earnings ratio of 17.2. That's cheaper than the TSX Composite as a whole.

And 2016 is looking to be even better. The company is currently working on adding sports betting and casino games to its existing poker platforms, which should be a nice boost to both the top and bottom lines. Both types of games carry better margins than poker, which only makes money by taking a small percentage of every hand played.

Based on that growth, earnings are expected to grow next year to $2.45 per share. That puts Amaya shares at just 12.9 times projected 2016 earnings, which makes it probably the cheapest growth stock on the TSX. With a future that bright and a valuation so low, it's little wonder why all the analysts who cover the stock rank it a buy with an average price target of nearly $47 per share.

If there's one thing I've learned about investing, it's that if something looks too good to be true, it probably is. Amaya is the perfect example of that.

The bad news

There's a huge reason why Amaya shares are so cheap. The company is in the middle of an insider trading investigation.

Back in December officers from Quebec's securities regulators raided Amaya's Montreal offices. Regulators were acting on tips from various folks who noticed improper trading leading up to the announcement of the company's big acquisition. The media then picked up on the story and found that several people with ties close to the company could have profited from buying shares before news of the acquisition was made public. One person linked to the investigation is Yoel Altman, a long-time advisor for the company and friend of CEO David Baazov.

The case has steadily gotten bigger and bigger. It was recently called the "biggest insider trading investigation in Canadian history." But even though investigators have been on the case for months, there still isn't any direct evidence that links top execs to anything improper.

Plus, investors have to take a look back at the acquisition. Rumours were swirling that Amaya was close to doing something major, even to the point where shares were halted by the TSX. I remember reading about a potential acquisition in poker blogs. And since Amaya needed so much financing to get the deal done, it ended up shopping it at many different banks before finally securing the cash. There are plenty of explanations for the deal getting leaked that aren't insider trading.

Why now is an opportunity

Essentially, investing in Amaya at this point is speculating that the investigation will either yield nothing, or the company will decide to settle with regulators without admitting wrongdoing and pay a fine.

Investors have to ask themselves what a reasonable price for Amaya would be if the investigation wasn't around. Let's say a share price of approximately 20 times projected 2016 earnings is about right, which works out to $49 per share. That's an upside of more than 50% compared with today's price.

Even if the insider trading case doesn't go particularly well, Amaya is still well positioned to deliver growth in the years ahead. Governments around the world—especially in the United States—will likely at least explore allowing legalized gaming online, and that's not even factoring in much organic growth.

Here's the way I see it: investors can buy now at a very reasonable price, or patiently wait and hope for an insider trading ruling to go against the company so they can buy shares on the cheap. But why be greedy? If shares get beaten up, I think they'll bounce back quickly. There's too much value in Amaya for it to stay down for long.

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