

Should Investors Gamble on Amaya Inc. at Under \$30 Per Share?

Description

Amaya Inc. ([TSX:AYA](#))(NASDAQ:AYA) is one of the most interesting stocks in the market right now.

The company transformed itself a year ago when it spent some \$4.7 billion to acquire two of the largest online poker platforms in the world. PokerStars has a market share of approximately 60%, while Full Tilt Poker enjoys another 10% of the market. Between the two players, Amaya basically bought itself control of the market.

As any online poker buff can tell you, it's important to play on the largest platform. While there's a lot of luck involved in poker, a skilled player does hold a statistical edge over weaker opponents. The more players who play on a certain site, the more likely it is the good player will find weaker opponents. Plus the larger platform will be able to support a better variety of games, which also attracts players.

It's also easy to scale up a business that mostly exists on computers and servers. Amaya has begun to do just that by expanding into other offerings like casino games and sports betting. Since it already has more than 100 million accounts between its two big platforms, and poker players are naturally drawn to other forms of gambling, there's definitely the opportunity to steal some market share in the space from competitors. Plus, both casino games and sports betting offer better margins than poker.

Earlier in the year, Amaya launched a test program for other forms of gaming in Spain. By just offering an optional download to existing users, it was able to capture a double-digit market share. Imagine what it can accomplish with a real marketing campaign.

Analysts are bullish on the stock as well. For 2015, earnings estimates are \$1.85 per share, while earnings are expected to skyrocket to \$2.46 in 2016. That puts the company at just 11.8 times 2016 earnings, which is ridiculously low for all the growth potential.

What gives? Why is the stock so reasonably valued, especially in a market which seems to put a premium on growth? There's a good reason for that.

The big problem

It all started back in the spring of 2014 shortly before Amaya announced the big acquisition.

Shares were surging as rumours swirled. Various market participants and well-connected people in the poker industry were convinced that Amaya was on the verge of doing something big, and the stock was reacting on the news. In short, the big acquisition was one of the worst-kept secrets of all time.

From Amaya's perspective, there are a couple of reasons why this happened. Since it had to raise so much money in order to make the deal happen, it ended up talking to dozens of bankers before it was a done deal. Since so many people were involved, rumours started leaking. Amaya also leaked some hints by announcing things like increases to credit lines.

Unfortunately, Quebec regulators didn't really agree that the leaks were inadvertent. In December an insider trading investigation was officially launched against Amaya. Regulators have since collected a mountain of evidence, including against some people with close ties to Amaya's CEO, David Baazov. The investigation has ballooned to the point where a recent piece called it the "largest insider trading investigation in Canadian history."

Investors have to be worried about this, but I'm not sure it's going to end up being a huge deal. Like I mentioned, leaks were everywhere surrounding the deal. Even if Amaya's senior management did end up doing something wrong, it'll be difficult to prove where the tip ultimately came from. Essentially, finding a smoking gun looks to be difficult.

Even if something incriminating is found against the company's management, it still has a terrific asset in PokerStars and Full Tilt Poker. That's what investors should focus on rather than an investigation that will eventually go away. And at just 11.8 times forward earnings and all that potential behind it, the underlying business looks very attractive, especially at under \$30 per share.

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1. Investing
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