

If You Don't Buy Amaya Inc. Today, You'll Be Kicking Yourself Later

Description

Thanks to the recent retreat of the TSX Composite Index, it seems like the entire Canadian stock market is swimming in bargain-priced stocks.

If you're a believer in the long-term health of the energy market, the oil sector is going to make investors a lot of money. It's easy to argue that Canada's banks are undervalued as well, with some even trading below 10 times earnings. Many REITs are yielding anywhere from 6% to 10%, with payouts that are actually sustainable. If you can't find value-priced stocks in those sectors, you're not trying hard enough.

Although the tech sector itself isn't known for value, there's one stock in the sector that I believe is one of the best values in Canada, an even better deal than most everything in these other sectors. That stock is **Amaya Inc.** ([TSX:AYA](#))(NASDAQ:AYA), the owner of PokerStars and Full Tilt Poker, two of the largest online gaming platforms in the world.

A terrific moat

If you're an online poker player, chances are you play at PokerStars. It commands a market share of more than 65%, with Full Tilt Poker in the third spot overall with a market share of about 10%.

The big thing that sets an online poker platform apart from its peers is the amount of players it has. Good poker players feast on poor players. A steady stream of poor players means steady income for the best players. And since every poker player who plays for real cash thinks they're pretty good, they're all going to flock to the biggest site. It becomes very hard for an upstart competitor to knock the incumbent off its perch.

Amaya is using its clout in the poker business to expand into other parts of the gaming business. It started offering an online casino and sports betting to its customers in Europe earlier in 2015, and pursued entry into the popular daily fantasy sports area of the market. By the end of the year, it expects approximately 13% of its revenues to come from non-poker sources.

The online casino market alone is almost four times larger than the poker market, and that's not even counting sports betting, which is even larger than the casino market.

The financials

Amaya paid a high price for its crown jewels, acquiring Rational Group in 2014 for US\$4.9 billion. Much of the price tag was financed by debt.

Normally, seeing a company as levered as Amaya would concern me. Often, a company with a lot of debt is just a stumble or two away from serious problems. And a bloated balance sheet can mean there aren't opportunities to make further acquisitions.

But as it stands now, Amaya's business is practically a license to print money. Over the last 12 months, it generated \$511 million in EBITDA, and that's only after owning its poker assets for 10 of those months. And that's primed to increase over the next year as it gets growth from the casino and sports betting markets.

Management has also been improving the balance sheet. It raised cash by divesting of some non-core assets, and currently has nearly \$1 billion worth of cash. There's no debt due until 2017, with the majority of its borrowings coming due past 2020.

The elephant in the room

The only real issue I can see with Amaya is the ongoing insider trading investigation the company is dealing with.

The story goes like this: right before the big acquisition in 2014, there was some unusual activity surrounding Amaya's stock. Management claims the unusual activity is because word of the acquisition leaked from one of the bankers involved in the deal. Quebec securities regulators aren't so sure and launched an investigation.

Even if one of Amaya's senior managers acted inappropriately—which I think is unlikely, but certainly possible—it still doesn't affect the investing thesis. Amaya still owns great assets with a bright future. The absolute worst-case scenario looks to be a fine, with guilty employees getting the ax.

There's a lot to like about Amaya. And when the insider trading investigation goes away, this stock may no longer be cheap. That's why it's important for interested investors to take a position in Amaya now, before the rest of the market figures it out.

CATEGORY

1. Investing
2. Tech Stocks

POST TAG

1. Editor's Choice

Category

1. Investing
2. Tech Stocks

Tags

1. Editor's Choice

Date

2025/09/12

Date Created

2015/09/21

Author

nelsonpsmith

default watermark

default watermark