Why I Just Made a Big Bet on Amaya Inc.

Description

When investing, I don't like to own a lot of stocks at any one time, preferring instead to invest in a few high-conviction names. It's a riskier strategy, without a doubt, but it allows me to become deeply familiar with each stock that I own.

In fact, I only own three Canadian stocks (the rest are American), and one of them I bought just a couple of weeks ago: **Amaya Inc.** (TSX:AYA)(NASDAQ:AYA). I explain why below.

A rock-solid poker business

Amaya is the parent company of PokerStars and Full Tilt Poker, which hold a 70% market share together in the online poker industry. In fact, no other competitor is even 10% as large as Amaya.

This lead is very difficult for competitors to break. Because Amaya has the most players, it can offer the biggest tournaments and the widest selection of cash games. In the poker business, this is called having "liquidity." In recent years the PokerStars brand (which accounts for the vast majority of Amaya's revenue) has actually been increasing its lead.

Amaya's poker business is also extremely profitable, and this should make sense. After all, software companies often have very high margins, and PokerStars is headquartered in the tax-friendly Isle of Man. Best of all, as PokerStars grows revenue, its costs will not grow nearly as quickly.

Numerous opportunities to grow

Amaya has some very exciting growth prospects. Most notably, the company has started offering other forms of gambling, including sports betting and casino games. This is a competitive area, of course, but Amaya can market to its existing database of poker players, which is a major advantage. The company can also offer these players a one-stop-shop experience, with all major forms of gambling on the same software and all using the same currency.

The other big opportunity comes from a gradual re-entry into the United States. Up until the beginning of October, Amaya was shut out entirely from the U.S., but has just been granted a license to operate in the state of New Jersey. This development is largely symbolic, but it could pave the way for more lucrative markets, including California, Pennsylvania, and New York.

A cheap stock

With such a solid online poker business as well as some exciting growth opportunities, you'd think Amaya was an expensive stock. But the company trades for roughly 16 times free cash flow.

Such a multiple would be appropriate if Amaya had practically no growth opportunities. But just by offering other forms of gambling and by re-entering the U.S., earnings could easily grow by $3 per share. That's not bad for a $30 stock.

There are a few reasons why Amaya is trading so cheaply. PokerStars has had a rocky history, and some Amaya executives are still under investigation for insider trading (I don't expect anything to come of this). But if Amaya is able to execute its growth plans, then these concerns will dissipate, and its share price should rise significantly. At the very least, this is a stock worth betting on.

CATEGORY

1. Investing
2. Tech Stocks

Category

1. Investing
2. Tech Stocks

Date
2025/07/20
Date Created
2015/11/09
Author
bensinclair