

## After a 30% Drop, Amaya Inc. Shares Are a Screaming Buy

### Description

To say investors were disappointed with **Amaya Inc.** ([TSX:AYA](#))(NASDAQ:AYA) and its third-quarter earnings last week would be an understatement.

The main headwind was currency. Amaya reports results in U.S. dollars, while collecting the vast majority of its revenues in euros. Since the U.S. dollar has strengthened considerably against the euro over the last year, it made quarterly results look downright terrible when converted back to the reporting currency.

But when investors look at results without the currency adjustment, they see a business that's pretty healthy. Amaya saw double-digit revenue growth in almost every market it serves, at least from a local currency perspective.

Thanks to the currency headwind, Amaya also downgraded its outlook for 2015. Previously, the company was predicting a profit of \$1.76 to \$2.00 per share, but has since revised that downward slightly to between \$1.66 and \$1.75 per share.

Additionally, investors still remain concerned with Amaya's debt. It has been aggressively paying down what it owes, but since the net US\$2.3 billion in debt is denominated in U.S. dollars, investors are concerned that any additional strength in the U.S. dollar will adversely affect management's ability to pay it off.

Amaya announced a potential solution to that problem, which was issuing a short-form prospectus that gives it the right to issue up to US\$3 billion in common shares within the next 25 months. Amaya's market cap is just \$2.87 billion on the Toronto Stock Exchange right now, which means investors should be pretty concerned about potential dilution.

Still, even after all of these pieces of bad news, I finally bit the bullet and purchased shares in the company. Here are the three reasons why I think it's a great buy going forward.

### Potential growth

Amaya is the king of online poker. Between its PokerStars and Full Tilt Poker platforms, it commands about 70% of the market. That's the kind of market share any investor likes to see.

Up next is the casino market. In the third quarter of 2014, Amaya generated just US\$3 million in revenue from casino games. In its most recent quarter, that jumped to US\$36 million in revenue. Casino games also tend to have higher margins than poker games.

Amaya also planned to launch a sports betting service in 2015, but that has been pushed back to 2016 as the company's engineers make improvements to the platform. While margins are lower for sports betting than casino games or poker, the size of the market is staggering. One estimate I read puts the size of the sports betting market at the same size as the poker and casino markets combined, at least

in Europe.

And finally, Amaya has quietly become the fifth-largest player in daily fantasy sports, the newest game sweeping the world.

### Management confidence

Amaya's CEO David Baazov also thinks Amaya's 30% crash over the earnings disappointment was an overreaction.

Baazov acquired an additional 60,000 Amaya shares on the open market earlier this week, a transaction that cost more than \$1.2 million. In total, Baazov owns some 24.5 million shares, a stake worth more than \$500 million. I like when management owns a large position in the stock since they'll likely be motivated to increase the price.

### Free cash flow

Quietly over the past year, Amaya has put up some nice free cash flow numbers. Converted to Canadian dollars, the company has generated more than \$440 million in free cash flow.

Based on a potential fully diluted share count of approximately 200 million shares, Amaya has generated about \$2.20 per share in free cash flow over the last 12 months. That puts shares at less than 10 times trailing free cash flow, an absolute bargain when you look at the growth potential from sports betting or expanding further into daily fantasy sports.

There are issues with Amaya, but it isn't very often investors get a chance to buy a company with such a dominant market share and growth profile for such a cheap multiple. I envision owning this stock for a long time.

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**Author**  
nelsonpsmith

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