Why Amaya Inc. Is a Great Buy Even After Dropping 30%

Description

The market has experienced a lot of ups and downs this year and it looks like this will continue right up until December 31. Countless companies have shot up and down over the course of the past few months as the market has dealt with a weak loonie, a strong U.S. dollar, crumbling oil prices, and elections.

One such company is Montreal-based **Amaya Inc.** (TSX:AYA)(NASDAQ:AYA). Amaya is a leading provider of technology-based software for the gaming and interactive entertainment industry. Amaya has a strong portfolio of brands that includes PokerStars, Stars Draft, and the Poker Tour series of games.

Earlier this month the company shed more than a third of value after providing a quarterly report update. Here's a take on why the drop occurred and why, despite this, Amaya represents a great opportunity for investors.

Amaya reports results in USD

Amaya recently provided an updated estimate for 2015, forecasting a decline of approximately 13% of revenue to fall within a range of $1.289-1.339 billion. The company cited the stronger U.S. dollar for a significant portion of the drop, as the purchasing power of Amaya's customers was effectively reduced by up to 19%. Following the trail of revenues, this translates into a decreased profit range of $1.66-1.75 per share, down from an initial forecast of $1.76-2.00.

Keep in mind that while Amaya is a Canadian company, results are reported in U.S. dollars, and most of its revenue comes in as euros. And with the U.S. dollar getting significantly stronger recently, it's fairly easy to see how this could initially be viewed as a bad result.

This foreign exchange conundrum only intensifies when you look at Amaya's debt, which is currently US$2.3 billion. Again, as the greenback gets stronger, that debt will start to get more expansive. This has some investors on edge. Investors are particularly concerned about what will happen to Amaya if the U.S. dollar continues to appreciate.

Despite the foreign exchange loss, revenues were up by $25 million for the quarter to $325 million, and earnings per share were up by $11 million to $91 million.

Amaya is expanding

In September of this year, Amaya got regulatory approval to re-enter the market and operate in New Jersey, albeit with conditions. The company expects that re-entry launch should occur sometime in the first half of 2016, which will spell significant jumps in revenue for the company.

Additionally, Amaya is working on getting online gambling into other regions, specifically Pennsylvania, Delaware, Nevada, and California. Approval in these states is only a matter of time as the cash-strapped state governments will undoubtedly jump at the opportunity for new sources of taxable income.

Amaya currently trades at just under $22, which is truly a bargain price. The company is slated to expand into new markets across the U.S. over the next year, which will bring in even more revenue in U.S. dollars.

If that weren't reason enough, Amaya's balance sheet is much stronger than it has been in the past and will likely improve with each quarter. The company has paid down debt by $690 million and engaged in a repurchasing of $45.5 million in stock. Those actions will help drive the price of this stock up further.

In my opinion, Amaya is a great opportunity for investors looking to get in at a bargain price and hold the stock for long-term growth.

CATEGORY

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