Amaya Inc. vs. the Commonwealth of Kentucky: Opportunity Awaits

Description

After a disappointing quarterly result and subsequent 30% drop in value, **Amaya Inc.** (TSX:AYA)(NASDAQ:AYA) got some more bad news in time for the holidays. A Kentucky court issued a judgment last week against Amaya in the amount of $870 million from a long-standing dispute over state residents' losses from the platform.

How did this happen?

The case can be traced back to 2010 when the Commonwealth of Kentucky filed the litigation to seek recovery of losses by Kentucky residents who played and lost money on the PokerStars website during 2006-2011.

Amaya purchased PokerStars from Rational Group in 2014 in a US$4.9 billion takeover and set aside in escrow approximately $300 million within the purchase price to deal with the case.

Should Amaya be obligated to pay the amount that the court said is owed, the company noted that they will seek out recovery of those funds from the former owners of the PokerStars platform.

The ruling, which was initially a US$290 million award that was then trebled by the judge, is a radical change in direction from the court. Only last month the same trial court had found that damages should be based on the net losses of players. In fact, the current ruling does not even take into account any winnings, bonuses, or free play.

What's even more absurd in the ruling is that PokerStars generates a paltry US$18 million of gross revenue from the entire state of Kentucky, and this judgment is nearly 50 times more than that amount.

What does this mean for Amaya?

The company plans to post a bond to stay the enforcement of the order up until an appeal is filed in January. The judgment, as described by the company, is based on an antiquated law dating back more than a century, which is disproportionate to the alleged issue at hand.

In terms of the court case and the impact on the stock price, an important point to keep in mind is that the initial US$4.9 billion price of PokerStars included $300 million for this very case. Despite this, the stock has taken a bit of a beating since the announcement, dropping into $16 territory, but has since recovered slightly to close out at $17.50.

After peaking at $37.52 earlier this year, Amaya has now dropped by 38% year-to-date. A significant portion of this loss is attributed to the latest quarterly results, whereby Amaya reported a 13% decline in revenue. The company cited at the time that the stronger U.S. dollar was responsible for a significant portion of the drop, as the purchasing power of Amaya's customers was reduced by up to 19%.

Despite the weak results and current legal obligations, both the business model and company finances are sound. The company has paid down debts considerably in the past few months and engaged in a repurchase program for $45.5 million in stock.

In terms of expansion and new opportunities, Amaya has applications pending in no less than 10 other jurisdictions to permit online gaming, with each one offering potentially more lucrative revenue opportunities than the previous.

In my opinion, the current weakness in the price of the stock is not truly reflective of the massive potential the company has to generate revenue. The current dip in price should be seen as a bargain for investors looking to diversify their portfolios.

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dafxentiou