



Why Amaya Inc. Is Surging

Description

Amaya Inc. ([TSX:AYA](#))(NASDAQ:AYA)—best known as the parent company of PokerStars—confirmed that CEO David Baazov intends to bid \$21 per share for the company. This represents approximately a 40% premium to Friday’s closing price. As a shareholder of Amaya, the news comes as a mixed blessing.

Some strong short-term headwinds

Before Mr. Baazov’s bid, Amaya’s U.S.-listed shares had declined by 50% over the previous three months. There were a few reasons for this.

Perhaps the biggest factor has to do with currency. PokerStars game play typically takes place in U.S. dollars, but most of the players are European. So as the U.S. dollar strengthens, it becomes more difficult for PokerStars players to play their favourite poker games. This was the main reason why Amaya reported awful third-quarter numbers in mid-November.

Making matters worse, a court in Kentucky ordered Amaya to pay US\$870 million to cover losses by residents of the state between 2006 and 2011. Amaya has called the ruling “frivolous and egregious” and is appealing the ruling. And even if the company loses the case, it will seek the funds from the former owners of PokerStars. Yet US\$870 million is still a big number, and this has scared quite a few investors.

A lot of hidden value

Beneath the surface, it is easy to see why Mr. Baazov wants to own Amaya.

First of all, the PokerStars platform dominates the online poker market with about 70% market share worldwide. And this lead is very safe, because as the biggest site, PokerStars can offer the most games and the biggest tournaments. This is referred to as “liquidity” in the industry and is a big advantage for PokerStars over smaller competitors.

Secondly, Amaya has a tremendous advantage to increase earnings by offering other forms of

gambling. The company has rapidly expanded its sportsbook and online casino platforms, each of which are being marketed to the massive database of PokerStars players.

Put it all together and, even after factoring in a big debt load, Mr. Baazov seems to be getting a great deal.

Still an opportunity?

This story is not over. Amaya's Canadian-listed shares trade for \$18.69 at the time of this writing, which is 11% below what Mr. Baazov reportedly intends to pay. So if you buy now and such a deal goes through, there's still money to be made. And even if the deal falters, there's still plenty of value in the company.

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