Amaya Inc.: Monday’s 20% Bump Is Just the Beginning

Description

On Monday **Amaya Inc.** (TSX:AYA)(NASDAQ:AYA) confirmed that CEO David Baazov planned to take the company private for $21 per share in cash. In response, the Canadian-listed shares jumped by 20%. So does this mean game over for Amaya? Is it too late to invest in the stock?

The answer: Absolutely not. We take a look at why below.

Not enough

Mr. Baazov’s offer is 40% higher than Amaya’s closing price on Friday, but that hasn’t left everyone satisfied. On *Business News Network*, reporter Amber Kanwar said “there is no chance of a deal getting done at $21 per share; that is according to a top 10 shareholder that I spoke with on the condition of anonymity.”

Of course, that shareholder would “absolutely not” tender his shares at this price. For what it’s worth, equity analysts have an average price target of $35 per share for Amaya.

Granted, the shareholder does think a transaction will take place, and that this is merely an opening bid. For instance, a competing bid could come from another online gambling company.

How serious is Mr. Baazov?

First of all, it’s important to remember that Mr. Baazov hasn’t bid anything yet. He has only revealed that he “intends” to bid $21 per share. In the meantime, he is trying to woo financial backers. And some skeptics have suggested that Mr. Baazov isn’t serious with his intentions. They say he is just trying to juice up the stock price.

But there’s a big reason why I believe he’s serious: Mr. Baazov has been a net buyer. Back in November Mr. Baazov purchased an additional 110,000 common shares on the open market at roughly the same price. With Amaya’s shares trading below $15 last week, it’s unlikely he was looking to sell those shares. Likewise, Amaya has been repurchasing its own shares. So there’s little incentive for Mr. Baazov to inflate the short-term share price of the company.

What if a deal doesn’t happen?

If Mr. Baazov can’t reach an agreement with the other shareholders, then the company’s stock may fall in the short term. But that wouldn’t be entirely bad news, because there’s a lot of hidden value in Amaya.

Let's start with its PokerStars brand, which controls 70% of the online poker market worldwide. This lead should be safe, because being the biggest provider allows PokerStars to offer the most gamesand biggest tournaments. This network effect is referred to as "liquidity" in the online poker industry,and it makes life very difficult for smaller competitors.

Secondly, Amaya can leverage its PokerStars brand to offer other forms of online gambling, such as sports betting and casino games. When combined with the prospect of looser regulations in the United States, there is tremendous upside for the business. Hedge fund manager Daniel Lewis of Orange Capital even predicted that Amaya shares could triple in the medium term.

So, at this point, I am happy to be an Amaya shareholder, no matter what happens.

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