Why Did Amaya Inc. Shares Plunge 21%?

Description

Wednesday was not a good day for **Amaya Inc.** (TSX:AYA)(NASDAQ:AYA). The owner of PokerStars and Full Tilt Poker saw shares decline as much as 23% in early trading on the Toronto Stock Exchange.

Charges were finally filed on an insider trading investigation that haunted the company and top execs for months. CEO David Baazov faces five charges from Quebec's securities regulator for "aiding with trades while in possession of privileged information, influencing or attempting to influence the market price of the securities of Amaya Inc., and communicating privileged information." In response, Baazov issued a statement that maintained his innocence.

Two other men wrapped up in the investigation are also facing charges, as are three different companies associated with the trading of Amaya shares. In total, everyone involved in the case are alleged to have booked $1.5 million in total profits.

It all stems from Amaya's takeover of Rational Group in 2014, the previous owner of PokerStars and Full Tilt Poker. Before the deal was officially announced, rumours were flying about Amaya's intentions. Amaya's management team has always maintained news of the deal was leaked by the bankers they courted to finance the transaction.

Since December 2014, when the insider trading investigation was officially announced, fear of charges being laid has weighed down the stock. Shortly before the allegations became public, shares of Amaya traded hands at nearly $40 each. They've since fallen more than 60% to less than $15 each, where they sit today.

Are shares a bargain today? Let's take a closer look

The good news

During the middle of this whole insider trading mess, Baazov made an offer to take Amaya private at $21 per share. Reports say he still plans to go ahead with this proposed offer.

Investors who believe the deal will go through have upside potential of approximately 40%. The large spread indicates the market isn't very confident the deal gets done, but at the same time, taking the company private would help minimize all the controversy.

Amaya is also a very cheap stock, at least if you believe analyst earnings estimates for 2016. Earnings are forecast to hit $2.02 per share on strength from the company rolling out casino games and sports betting on its poker platforms. And 2017 is expected to be even better with earnings coming in at $2.29 per share.

At today's price, shares are trading at just over seven times expected earnings for 2016. That is remarkably cheap for a company that holds premium assets like PokerStars and Full Tilt Poker, two platforms that combine for a 70% market share in a very lucrative industry.

The bad news

There's a reason why shares went down so much on the news. If investors can't trust Baazov to follow insider trading rules, can they trust him at all?

Many investors avoid companies that have disclosed accounting irregularities, even if those sins are relatively minor. The logic behind it is simple: Why bother with a company with accounting issues when there are thousands of stocks out there without such clouds hanging over their heads? Many investors will treat Amaya in a similar fashion.

I'm one such example. I had a position in Amaya and sold for a tiny profit when Baazov announced his intentions to take the company private. There were just too many opportunities out there in companies without these issues for me to hold any longer. I can't be the only investor who feels this way.

Amaya owns some great assets, and the company is attractively valued from an earnings perspective. I'm just not sure those factors are enough to make up for charges being laid for insider trading.

CATEGORY

1. Investing
2. Tech Stocks

Category

1. Investing
2. Tech Stocks

Date
2025/07/08
Date Created
2016/03/23
Author
nelsonpsmith