More Controversy for Amaya Inc.

Description

Just a few weeks ago, **Amaya Inc.** (TSX:AYA)(NASDAQ:AYA) was one of the hottest stocks around. The company, a provider of technology-based solutions in the gaming and interactive entertainment industry, had massive potential for revenue as it sought approval state by state for residents to partake in its online gambling platform.

That all changed this week when Amaya CEO David Baazov was charged by Quebec's securities regulator, the Autorité des marchés financiers (AMF), with insider trading. The stock subsequently dropped over 20% on the news, bringing it below $15 and triggering a barrage of analysts to slap a hold rating on the company.

No stranger to controversy … or charges

This is not the first time Amaya has raised eyebrows with the law. The company was recently the subject of a ruling in a Kentucky court, which found it liable to pay an $870 million award from a long-standing dispute over state residents' losses from the platform.

That case dates back to 2010, well before Amaya purchased PokerStars from Rational Group for $4.9 billion in 2014. Part of that deal included a $300 million cushion to cover the Kentucky case, which would have been more than sufficient had the judge not trebled the damages, which were initially set at $290 million.

Keep in mind that PokerStars generates a whopping US$18 million of gross revenue from the state of Kentucky, meaning this judgement is 50 times that amount.

Amaya is currently appealing that decision, and should the company be found liable, it has said it will seek out recovery of those funds from the former owners of the platform.

More recently, Baazov announced his intentions to take the company private at a price of $21 per share. If this happens, there is a significant upside based on the current price. That, however, may have to wait for the current controversy to blow over–if it happens at all.

What does this latest news mean for Amaya and investors?

Despite the charges relating to the head of the company, Amaya does not think the charges will usher in any changes in the day-to-day operations of the business. The online platform operates as it always has, without any changes to offerings, security, or experiences.

The current investigation with the AMF goes back to 2014; Amaya maintains that it has and will continue to cooperate with the AMF in any way possible.

Investors in Amaya would do well to recognize that Amaya’s business model remains sound, and the company is still a very good opportunity for long-term growth. The fact that the stock has dropped considerably in a day speaks to the emotions of some investors, but not of the viability of the business as a whole.

Investors who have the appetite for an extremely volatile stock may be able to pick up some shares of Amaya at an incredible discount. Once the investigation is resolved and the company returns to business as usual, the stock will start to erase some of the losses.

CATEGORY

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dafxentiou