Major Trouble Is Brewing at Amaya Inc.

Description

There are some major events occurring that could permanently change the fortunes of **Amaya Inc.** (TSX:AYA)(NASDAQ:AYA). If you're a current investor or taking a look at battered shares (which are down 30% in six months), pay attention to these key items that could spell trouble.

CEO takes indefinite leave of absence

On Tuesday, Amaya announced that CEO David Baazov is taking a voluntary leave of absence following allegations against him by Quebec's stock market regulator. He and others were charged with insider trading stemming from Amaya's $4.9 billion buyout of PokerStars in 2014.

Baazov faces five charges of "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." He has denied allegations that he was "the main source" of insider information that allowed others to make nearly $1.5 billion in profit from well-timed stock trades.

Privatization efforts are complicated

In February, Baazov made a non-binding, all-cash offer to acquire the entire company at roughly $21 a share. The offer was at a 40% premium to Amaya's closing price of $15 a share. After the announcement, the company's stock spent the next month trading at roughly $20. The board of directors established a special committee of independent directors to review the proposal. Since the insider-trading scandal broke, shares have fallen back to the $16 range.

As late as March 15, Baazov was still pushing forward with his offer to take the company private. "I'm going to position to move towards submitting a proposal to acquire the outstanding shares of Amaya consistent with my previously announced intentions," he said. Needless to say, Baazov's offer is likely on indefinite hold following his leave of absence, removing one of the major drivers of price performance over the last few months.

Major acquisition is also in peril

After receiving “many expressions of interest in acquiring all or material parts of its business,” shares of competitor **Intertain Group Ltd.** (TSX:IT) have been surging on rumours that it would be taken over by Amaya, which already owns 2.7% of the company. A combination would make sense given both companies operate complementary online gambling businesses.

The deal would represent yet another prudent acquisition by Amaya, which has regularly bought out leading competitors, consolidating its dominant position in global online gambling. The stocks of both companies have fallen since trouble started brewing at Amaya, and the tie-up is in significant doubt. Any inability to swallow up competitors would put a major dent in Amaya’s long-term strategy of growing its market share.

What’s left?

Shares trade at just eight times trailing earnings, but Amaya seems to facing multiple uncertainties. Company executives could feasibly end up in jail, privatization efforts will be stalled and possibly be tabled completely, and the company’s long-term strategy of buying competitors is in doubt. Catching a falling knife seems fairly risky at this point.

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