

Is Amaya Inc. a Good Buy Today?

Description

There aren't many companies more exciting than **Amaya Inc.** ([TSX:AYA](#))(NASDAQ:AYA) over the last few years.

First, the company made the transformational acquisition of Rational Group and its underlying holdings PokerStars and Full Tilt Poker in 2014, instantly vaulting it to the top of that industry.

But the acquisition wasn't without controversy. Before the deal was made official, Amaya shares surged on rumours it was about to make a big acquisition. This suspicious trading activity was noticed by Quebec's security regulators, who, after a long investigation, charged several people with various crimes. Then CEO David Baazov was among those charged. He faces five different charges, all of which are linked to the takeover.

Baazov took a temporary leave of absence when the charges were announced back in March, after he floated an offer to take Amaya private at \$21 per share back in February. Interestingly, we haven't heard much from Baazov since he made that offer public, leading investors to label him as untrustworthy. Insider trading charges certainly won't help that persona.

But among all of these issues, Amaya has a lot of things going for it. Let's take a closer look and see if the pluses outweigh the minuses.

A strong cash generator

The business of online gaming is a very attractive one. It requires very little in capital expenditures.

Amaya produces a ton of free cash flow. Over the last year the company has made US\$249 million in free cash flow, which is down a bit compared to its 2015 result of US\$314 million. Still, even if the company can only generate US\$249 million in annual free cash flow going forward, shares still trade at less than 10 times that metric. That's cheap, especially for a business with the kind of economics Amaya enjoys.

Growth potential

Amaya has a number of interesting growth paths.

The first is its entry into both casino games and sports betting. Management thinks the company can easily capture much of this market because it already enjoys a leadership position in poker. Customers will appreciate the ease of being able to play many games with only one account.

Casino and sportsbook revenue is growing like mad. In April 2015, these categories made up just 9.9% of total revenues. In April 2016, it was 20.8%.

The company also has good growth potential in the United States. Although Amaya has really only

dipped its toe into the water at this point by introducing PokerStars New Jersey, the company is poised to cash in on growth in the U.S. market whenever that comes. Most industry observers feel lifting the ban on online poker in the United States will eventually happen.

And finally, although the industry isn't growing quite as fast as it was, Amaya is well positioned to cash in on the still-growing daily fantasy sports boom.

More issues

Insider trading isn't the only issue facing Amaya today.

One difficulty is its revenue mix. Most of its top line comes from euros and pounds sterling, two currencies that haven't done so well against a strengthening U.S. dollar lately. Amaya posted a 6% year-over-year revenue increase in its most recent quarter, which was reported in U.S. dollars. If the results were presented in constant currencies, top-line growth would have been 12.1%.

Poker revenues were actually down in the company's latest quarter, even after adjusting for currencies. The company is blaming cannibalization from casino games for the decline, but still, investors have to be concerned.

Finally, while PokerStars remains strong, Full Tilt Poker is basically on life support. The company is reporting that many of those folks are moving over to PokerStars, but many are choosing to try competing platforms as well.

Is it a buy?

If it wasn't for the insider trading cloud overhanging the company, it's very easy to make the case that the stock is a buy. It has growing revenues, a reasonable valuation, and nice potential for the future.

But the insider trading fiasco is enough to give many investors pause, even if many are happy that Baazov is out. This could continue to be the biggest issue weighing on the stock going forward.

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