Billionaire David Einhorn Bought 3.9 Million Amaya Inc. Shares: Should You Buy Too?

Description

Many investors choose a very simple strategy: they copy the portfolio moves of the richest billionaire investors, hoping to ride their coattails to investing success.

David Einhorn has consistently been one of the world's best investors. His hedge fund, Greenlight Capital, which was founded in 1996 with just $900,000 of his own money, has returned 1,902% cumulatively, or 16.5% annualized through January 2016. And that's after suffering a down year in 2015, which saw the fund lose more than 20%.

Einhorn takes a very active role in the stocks Greenlight Capital buys, at times very publicly battling with management to get changes made. He sued **Apple** in federal court to pressure the company to issue preferred shares as a way to bring some of its massive overseas cash hoard back home.

It didn't work, but Einhorn was successful in calling for Steve Ballmer to step down as CEO of **Microsoft** in 2011 after the company had been surpassed by rivals Apple and **Google**. However, it did take three more years until Ballmer finally quit.

Needless to say, it's pretty obvious why Einhorn has been successful. He identifies undervalued companies and then draws attention to their plight. These companies improve, shares go up, and Einhorn gets richer.

It appears that Einhorn is poised to do the same thing with a Canadian tech company with its own share of problems, **Amaya Inc.** (TSX:AYA)(NASDAQ:AYA). Greenlight Capital was busy buying up shares of the online gaming operator in the latest quarter, accumulating more than 3.9 million shares at an average cost of US$13.77 per share.

What exactly does Einhorn see in Amaya, anyway?

Great earnings potential

On the surface, Amaya looks to be yet another tech company struggling to make money. Shares trade hands at an eye-popping P/E ratio of 1,686 after earning a whole penny per share over the last year.

From a free cash flow basis, however, things are much better. Over the last year the company posted free cash flow of US$242 million, putting shares at just 9.25 times trailing free cash flow. That's a very reasonable valuation.

Analysts believe true earnings are coming for Amaya, and soon too. Consensus estimates say the company will earn $2.09 per share in 2016, increasing that to $2.51 per share in 2017. That puts shares at just 9.7 and 8.1 times earnings, respectively.

Analysts expect a couple of different things to boost Amaya's bottom line. The company's expansion into other casino games and sports betting is going pretty well with revenue from those two sources exceeding 20% of total revenue thus far in 2016.

The other is an improvement in the euro versus the American dollar. Most of its revenues are collected in euros, while earnings are reported in U.S. dollars. A reversal in the trend between the two currencies would boost the bottom line without management having to do anything.

Management stability

Embattled CEO David Baazov recently made it official, stepping down as CEO after taking a temporary absence.

Investors might remember Amaya's involvement in an insider trading scandal regarding its big 2014 acquisition of Rational Group. Several people employed by the company at the time–including Baazov–are now facing charges.

Now that Baazov has stepped down and his offer to take the company private has presumably gone with him, Amaya can now focus on the future. There's little doubt that part of the reason the company trades at such a low valuation is because of this situation.

Should you join Einhorn?

Amaya has the ability to generate large amounts of cash, and its casino business is growing nicely, although somewhat at the expense of poker. The company also has more than US$500 million in cash.

But at the same time, there are question marks. The company has lots of debt, including convertible preferred shares that could potentially dilute current shareholders significantly. There's still the insider-trading overhang, even if that's reduced compared to before. And continued strength in the U.S. dollar could make results look worse than they really are.

Ultimately, Amaya is still risky, but Einhorn is on to something. If things go right, Amaya shares could be much higher in a few years.

CATEGORY

1. Investing
2. Tech Stocks

Category

1. Investing
2. Tech Stocks

Date
2025/07/07
Date Created
2016/08/18
Author
nelsonpsmith