Why Amaya Inc. Shares Plunged 8% Today

Description

Amaya Inc. (TSX:AYA)(NASDAQ:AYA) shares are taking it on the chin during early Tuesday trading, falling approximately 8% after the company announced it was no longer pursuing a merger with U.K. online gaming giant William Hill.

A number of things stood between the two companies and a deal. Amaya is still dealing with an insider trading investigation that led to charges being filed against former CEO David Baazov, who is accused of using a complex system to let others know when Amaya was about to do something big. Regulators say Baazov kept it up even after they officially started investigating the company.

Baazov has been charged, but he has yet to appear in court.

One of William Hill's largest shareholders also opposed the deal. Parvus Asset Management, which owns 14.3% of William Hill shares, told the company's board a deal with Amaya would "destroy shareholder value." Parvus co-founder Mads Eg. Gensmann also told the press, "it shouldn't take more than five minutes of the board's time to realize this deal doesn't pass the smell test."

Tepid guidance

Amaya also took the opportunity to update investors on guidance for the rest of 2016.

Numbers were a bit disappointing. The company said it expected to post revenue between US$1.13 and US$1.16 billion, which is lower than analysts' expectations of US$1.17 billion. Earnings are expected to be between $1.71 and $1.82 per share versus the average forecast of $1.72 per share.

Although Amaya dominates the online poker market with a 71% market share, many investors are less than bullish about the future of the game. Player growth is slowing as gamblers move to other games like daily fantasy sports. Amaya saw 2.35 million active customers in its most recent quarter–up only 70,000 users from the same quarter last year.

Amaya is working on diversifying. It has rolled out sports betting and casino games to its online poker players with some success. Some investors think this will continue to be a challenge, since poker players are just there to play poker. Management disagrees, pointing out that it grew casino and sportsbook revenue by 150% in the first half of 2016 versus the same period last year without much marketing.

Amaya is also dealing with currency issues. It reports results in U.S. dollars while collecting most of its revenue in euros and British pounds. Since these currencies have been weak against the greenback for months now, it's weighing down results.

During the first half of 2016, Amaya posted revenue growth of 8%. If we take out the difference in currency, the revenue improvement jumps to 15%.

The big issue

The big issue with Amaya, at least for me, is that the company has too many distractions.

This issue is personified by actions taken by former CEO and largest shareholder David Baazov. Even though he's been charged with insider trading by regulators, he still floated an offer to take the company private for $21 per share back in February.

This offer was non-binding, and Baazov doesn't seem to have any source of funding for his bid. He would have to raise north of $2 billion to take the company private … not a small amount of money.

In the wake of the William Hill merger falling apart, Baazov reiterated his desire to buy the company, but Amaya hasn't received an offer it feels will actually result in a deal. It's not that the company isn't interested. Baazov just can't get the cash.

These are not the kinds of distractions a publicly traded company dealing with insider trading issues needs. Amaya needs to show the market it can be a good operator as well as a good deal maker.

The bottom line

Amaya is quickly turning into the stock version of the little boy who cried wolf. Eventually, investors will dump the stock and not look back, tired of the shenanigans. That's why shares are slumping so much today.

CATEGORY

1. Investing
2. Tech Stocks

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