

Amaya Inc.: Is Opportunity Staring Back at You?

Description

One of the hard parts about investing is getting past the emotional aspect. Don't follow the pack and sell when the going gets tough; instead, look at it as an opportunity to start picking up more shares. Even when the news appears to be bad, it's important to look at the true merit of the company to determine if you should be buying shares.

And when it comes to **Amaya Inc.** ([TSX:AYA](#))(NASDAQ:AYA), I believe that buying shares at this price is an amazing opportunity, and with the recent drop, you can get more bang for your buck. But why did the stock price drop? William Hill, a U.K. online gaming company, was looking to acquire Amaya. But after one of its largest investors said it didn't support the bid, the company pulled out.

So unfortunately, there's no huge liquidity event for investors. But, like I said, I believe this company presents an amazing opportunity primarily because the space is still so new and there is much growth to come.

Its customer growth continues to increase with 103.5 million registered users by the end of June 2016. It has consistent active players—an area that is getting stronger year over year. And its revenues continue to grow, rising 10% from US\$259.5 million in Q2 2015 to US\$285.9 million in Q2 2016.

The vast majority of Amaya's revenue comes from poker; it controls 71% of the available market through its brands. And if its preliminary third-quarter results are anything to show, the company expects revenue to be between US\$268 and US\$273 million—up from US\$247 million a year prior.

Amaya's casino and sportsbook revenue is growing fast. In the first half of 2015, it earned \$47.9 million and accounted for only 9% of revenue. By the first half of 2016, its casino and sportsbook revenue was \$119.7 million and accounted for 20.8% revenue.

This is important for a couple reasons. First, it's never good to depend on only one business. The second reason is about margins: poker games are lower margin than casino and sportsbook revenues. Therefore, the company should continue to see earnings increase as this becomes a larger part of the business.

And the earnings show it.

Amaya's adjusted EBITDA in Q2 2015 was US\$112.4 million, but it rose 16% to US\$129.9 million a year later. But its margin was 43.3% in 2015 and rose to 45.4% in 2016. An increase in margins can only be good.

But that doesn't mean that everything is perfect for Amaya. Online gambling isn't acceptable in every jurisdiction and, unfortunately, is mostly illegal in the United States. However, I see a trend slowly changing; many individual states are going to look to online gambling as a way to bolster local treasuries. Amaya launched in New Jersey about a year ago and quickly expanded its market share to

44%. I expect other states to follow in the coming months and years.

Ultimately, the way I look at Amaya is simple: it is a messy company that is dealing with regulatory hurdles, not to mention issues with its former CEO. Those things are holding the price of shares down. However, as it cleans up its messes and opens in new jurisdictions, I expect the revenue and earnings to increase rather aggressively. I believe investors should take advantage of the opportunity now while the shares are cheap.

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