Amaya Inc.: A Buy With or Without a Takeover

Description

You know you've been writing about company for a long time when the same news pops up time and again. That seems to be the case with **Amaya Inc.** (TSX:AYA)(NASDAQ:AYA). The news this time is an attempt to take the company private.

Its former CEO, David Baazov, who recently resigned from the company, is working with a group to acquire Amaya. The deal, with the assumption of debt, is valued at US$6.7 billion with a per-share price of $24. Naturally, this sent shares spiking.

The rationale is actually quite straightforward. In a statement, Baazov said, "While Amaya incurs the costs and scrutiny associated with being a reporting company, it obtains no benefit from being public."

We've been here before. In February, Baazov tried to take Amaya private for $21 per share. At the time, that would have been a 12% premium over the share price (after it increased on the news). Now investors are looking to get an additional $3 per share that they wouldn't have gotten. That's a good sign.

Here's my stance on takeovers: when a company is being particularly difficult, it's sometimes a good idea to get your money out of it and move it somewhere else. This takeover is a good way to do that. However, it's the easy way out, primarily because Baazov is only willing to pay US$6.7 billion as he believes it'll be worth a lot more than that in the future.

So, what should you do?

I don't believe in playing the game of speculating on whether or not an acquisition is going go through. There are investors out there that will buy because there is a 4% spread, believing that it'll close in two quarters, guaranteeing a return. I'm a believer that you only invest in a company because the fundamentals are sound, and if an acquisition happens, that's just more great news.

The company is killing it.

In its Q3 earnings report, it showed that it continued to add new customers, its casino quarterly active uniques grew to nearly half a million, and its poker active uniques remained constant at 2.26 million. Revenue increased by 10% year over year to US$270.8 million. Its poker revenue dropped by a percent to US$196.8 million, but its casino and sportsbook revenue increased by 69% to US$64.2 million. This led to adjusted net earnings of US$85 million–up 23%–and an adjusted net earnings per diluted share of $0.42–up 22%.

One statistic I am particularly bullish on is the geographic breakdown. Presently, the European Union accounts for 63% of its revenue with the Americas only accounting for 13%. I fully expect that there will be continued regulation in favour of Amaya to make online gambling legal in the United States, which will push this breakdown into a more diverse setting.

All in all, the business is pretty solid. It readjusted its revenue guidance up by about $10 million, and its adjusted EBITDA was adjusted by $10 million also. From where I'm sitting, Amaya is still firing on all cylinders and should continue to see nice growth.

So, should you buy it? I'm very bullish on Amaya. If you buy now and it gets acquired for $24 per share, you'll make a nice return. And if you buy now and it grows over the coming years, I expect you'll make a nice return also. But I would focus in on the long term and take the acquisition as a consolation prize.

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