3 Reasons to Pass on Amaya Inc.

Description

David Baazov has upped his offer to buy **Amaya Inc.** (TSX:AYA)(NASDAQ:AYA) for $24 per share—$3 more than his original bid. That's 27% above where it's currently trading, providing speculators with a nice arbitrage play.

The trick with arbitrage is, you want a deal to be sewn up quickly so your potential 27% gain turns into a 300% gain on an annualized basis. Like a home flipper, you want to get in, renovate, sell that sucker, take your profits, and go. Every day you're in that house costs you money. In the case of Amaya stock, every day you're holding it without a definitive deal, it's costing you the opportunity to put that money to use elsewhere.

Fool.ca contributor Jacob Donnelly is a big believer in Amaya, suggesting that whether or not a takeover occurs, the online gaming company is a long-term hold. His rationale: Amaya's business is booming, and that's without the potential bonanza that is legalized online gambling in the land of Trump.

In addition, revenues and earnings are growing, regulation around the world is easing, and, in general, online gaming is become an accepted form of entertainment.

Buy in, sit back, and watch Amaya stock appreciate to triple digits. It all seems so simple; maybe it is. But before you buy Amaya stock for the long haul, consider three reasons why you might want to pass.

Failed merger

The blockbuster merger between William Hill, a leading U.K. bookmaker, and Amaya, looked to be a powerful combination that would rule the online gambling world. Unfortunately, it never came to pass; William Hill called off negotiations in mid-October.

At the crux of the rejection was its largest investor—Parvus Asset Management owns 15%—who felt online poker's best days were behind it: "It shouldn't take more than five minutes of the board's time to realize this deal doesn't pass the smell test," said Parvus Co-founder Mads Eg Gensmann. "We strongly encourage that the board and management stop wasting valuable time and shareholder resources pursuing this value-destroying deal."

Amaya responded to this assertion with a strongly worded rebuttal, but the damage was already done. True or untrue, the deal was off, and down went Amaya stock.

The fact is, Parvus did William Hill a big favour by opposing the deal because mergers of equals rarely work; Gensmann knew as much.

Are Amaya's numbers really that good?

The company said in its Q3 2016 earnings report November 14 that revenues for the entire year at the top end of its guidance will be US$1.16 billion with adjusted EBITDA of US$510 million. That converts to $1.57 billion and $688.10 million in Canadian dollars—increases of 14.6% and 17.2% year over year, respectively.

That's good, but it's certainly not killing it.

Consider what **Facebook Inc.** (NASDAQ:FB) has done so far in fiscal 2016. Through the first nine months ended September 30, its revenue has increased 55.8% year over year with a 30% increase in operating income.

Now, I know we're talking apples and oranges here, but Facebook has no debt and US$26 billion in cash, while Amaya's got US$2.5 billion in debt and $535 million in cash. No matter what Facebook's forward P/E ratio is, it's still a much better buy than Amaya.

Trouble follows ex-CEO

This last one is probably the biggest reason to avoid Amaya stock. As Baazov moves to take the company private, he continues to battle Quebec regulators who've charged him with insider trading related to Amaya's purchase of PokerStars back in 2014.

Although the charges are highly circumstantial in nature, trouble seems to follow the 36-year-old, and now he's got the SEC on his tail, although that investigation is also likely to end up being a non-issue.

Here's my golden rule when investing: where there's smoke, there's fire. Investigations of any kind are a red flag, in my opinion. Do you really want to own shares in a company whose former CEO is mixed up in this kind of stuff?

I'm sure Baazov's a lovely person—but I'd pass.

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