Investors: Don’t Buy Amaya Inc. Shares Until This 1 Thing Happens

Description

There’s a lot to like about **Amaya Inc.** (TSX:AYA)(NASDAQ:AYA).

The company dominates the online poker market. PokerStars gets approximately 70% of all online poker play with its next closest rival below 15%. It’s not even close.

Amaya’s management has been smart about capitalizing on this strength, expanding into other casino games–think blackjack, roulette, and slots, mainly–as well as offering sports betting. Poker revenue has dipped from being the entire top line just a few years ago to just 72% as of the latest quarter.

In fact, if it weren’t for unfavourable currency moves–Amaya collects most of its revenue in euros while reporting in U.S. dollars–the company would be posting some serious growth. Revenue is up 10% thus far in 2016 when reported in U.S. dollars. Excluding the currency impact, revenue growth was 14%–a full 40% higher. Remember, the U.S. dollar is at a 14-year high. It isn’t hard to imagine it falling a little.

The online poker business generates plenty of profits with Amaya on pace to easily surpass US$500 million in EBITDA for 2016. A lot of this money will go towards interest and preferred share dividends, but there should be plenty left over for the company to continue paying down its debt.

Amaya is well positioned to reenter the U.S. online gaming market whenever lawmakers finally make online gaming legal across the country. It currently operates a platform for the state of New Jersey, and it is the only online gaming company that trades on a major U.S. stock exchange–something that will benefit it when the time comes.

This all sounds pretty bullish. So what’s the problem?

Enter David Baazov

There was a time when David Baazov, Amaya’s ex-CEO and largest shareholder with a 17% stake in the company, was widely considered one of the tech world’s executives. When he led the big acquisition of Rational Group in 2014, most sang his praises.

Things have gone downhill since then. Oh, have they ever.

Baazov was formally charged with insider trading in March, after an investigation that lasted more than a year. Quebec's securities regulators allege Baazov used his position to funnel company secrets to his brother Josh, who would then communicate them to certain investors. These investors used this non-public information to make a lot of money, especially in the days leading up to the Rational Group deal.

When Baazov was officially charged, he agreed to take a leave of absence from Amaya, stepping down as CEO for an indeterminate amount of time. That temporary leave became permanent in mid-August.

Baazov didn't let his absence stop him from making headlines. He launched two bids to take Amaya private: one earlier this year and the other more recently–a deal that just officially fell apart. In the latest of the two offers, Baazov claimed to have the backing of a major Middle Eastern investment firm. When contacted about its role in the bid, KBC Albani Capital claimed it had never even heard of Baazov or Amaya and launched an official SEC complaint about Amaya's largest shareholder.

Baazov claimed he received a fake letter from somebody claiming to be a part of KBC Albani Capital.

The bottom line

I realize that there's little Amaya can do to control its former CEO, short of negotiating with him to effectively control his block of shares. Hopefully, they won't have to, and Baazov will move on. But I'm skeptical. I think there's very much a possibility that Baazov will try something like this again. And remember, he still has to go to trial over insider trading allegations–something else that will prove to be a distraction.

Until Baazov is removed from the company, he will continue to be a distraction that keeps the share price down. It's that simple.

Editor's note: An earlier version of this story insinuated that Baazov's leave of absence was not yet permanent. The Fool regrets the error.

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