

Investors: It's Time to Check Out Amaya Inc.

Description

It seemed like **Amaya Inc.** ([TSX:AYA](#))(NASDAQ:AYA) made headlines on a weekly basis through 2015 and 2016, and not for the right reasons.

It all started in December 2014, when the Autorite des marches (AMF) raided Amaya's Montreal headquarters. Quebec's securities regulator later confirmed it was looking for proof that Amaya's senior execs gave certain investors privileged information immediately before the company acquired its crown jewel, PokerStars, from The Rational Group.

Eventually, several people were charged with insider trading, including Amaya's then-CEO and largest shareholder David Baazov. The AMF alleges Baazov tipped off certain investors that a bid for PokerStars was coming. These investors then used that information to profit. The case still hasn't gone to trial.

After Baazov was charged with insider trading, he temporarily stepped aside as Amaya's CEO. But first, he made an offer to take the company private. That bid fizzled, so he followed it up with a better offer a few months later. This potential deal also fell apart after one of the financial backers said they had never heard of Baazov or Amaya.

Oops.

The latest offer was made in November with Baazov officially withdrawing it in December. Since then? Crickets. The only time Baazov made the news is when he sold some of his Amaya stock. This is exactly what the company needed.

Now that it appears that all the distractions have gone away, investors can focus on the Amaya turnaround story, which is actually going pretty well.

Getting the house in order

Amaya released its 2016 earnings this week, and results were strong. It delivered adjusted net earnings of \$0.53 per share for the fourth quarter with annual results coming in at US\$1.88 per share. The 2016 earnings were 27.8% higher than the previous year. Revenue was US\$1.16 billion for the year — a 7.8% increase versus the year before.

A closer look at the numbers told a somewhat predictable story. Poker revenues are slipping ever so slightly as the game's popularity continues to wane, but that was offset by nice gains in sports betting and casino games. Amaya's two new verticals account for about 25% of revenue.

Guidance was also strong. Amaya predicts it will generate between US\$1.2 and US\$1.26 billion in revenue in 2017 with adjusted net earnings between US\$1.94 and US\$2.13 per share.

Amaya shares trade hands for US\$16.30 on the NASDAQ, giving the company a very attractive price-

to-earnings ratio.

Amaya is also doing a nice job paying down the substantial debt it was forced to take on with the PokerStars acquisition. On December 31, 2014, Amaya owed creditors US\$3 billion. That number is down to US\$2.5 billion as of December 31, 2016. It also just refinanced some debt, which will save it US\$15.4 million annually.

The catalyst

One of the major things holding Amaya back is the strong U.S. dollar. The company reports results in U.S. dollars despite taking in most of its revenues in euros.

In 2014, it cost between US\$1.30 and US\$1.40 to buy one euro. These days it costs US\$1.08 to buy one euro.

The impact of this move on Amaya is massive. The euro is currently flirting at a five-year low versus the dollar. If it increases just 10%, Amaya will see a nice uptick in earnings without doing anything. If the euro rises back up to the highs it saw in 2014, it'll be a massive win for Amaya.

I'm no macro analyst; it's extremely difficult to predict currency moves over the short term. But I am confident the U.S. dollar will weaken sometime in the future. Besides, it's not like Amaya is on the brink of bankruptcy. Investors can afford to wait.

The bottom line

Amaya has done a nice job digesting the PokerStars acquisition, and the decision to expand away from poker is working out nicely. The company is also projecting nice growth in 2017 and trades at a very low valuation. But perhaps the best news is that it appears the David Baazov saga is behind Amaya.

Both value and growth investors should be interested in Amaya today.

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