3 Reasons Aimia Belongs in Your Portfolio

Description

Almost 45 years ago, Warren Buffett began investing in Blue Chip Stamps, which ran a coalition loyalty program in grocery stores and pharmacy chains. Mr. Buffett liked how Blue Chip was able to sell the stamps for cash upfront, and only had to incur the expenses later when the stamps were redeemed.

Blue Chip has since faded into obscurity as more technologically advanced loyalty programs gained traction. But the investment still worked out very well for Mr. Buffett, who was able to reinvest Blue Chip's strong cash flow into other businesses.

Today, there is another loyalty management company that offers a great opportunity for investors: **Aimia Inc** (TSX: AIM), best known for the Aeroplan program. And this company should be a lot more sustainable, meaning an investment could work out even better than Blue Chip did for Mr. Buffett. There are a few other reasons why Aimia would make a great addition to your portfolio.

1. The transition to TD: So far, so good

Going into this year, **CIBC** was by far Aimia's largest partner through the Aerogold Visa credit card. But Aimia is transitioning over to **TD Bank** (TSX: TD)(NYSE: TD). The move has plenty of advantages for Aimia – TD is a bigger bank than CIBC and has a stronger retail-banking footprint. The new contract also comes with better deal terms than Aimia had with CIBC; for example, TD is paying 15% more per mile. And as an added bonus, CIBC can continue to issue Aerogold Visa cards to its existing customers.

But the new deal came with a big risk: that amid all the confusion, many cardholders would switch to another loyalty program. Fortunately, that doesn't seem to have happened. In Aimia's most recent quarterly earnings call, CEO Rupert Duschesne said that "the rate of attrition of existing cardholders has been very close to zero." That's good news for both Aimia and TD.

2. Upside from international businesses

Aimia began expanding internationally back in 2007, and it has not gone very smoothly. Poorly timed acquisitions led to some big write-downs, and profitability has not reached Canadian levels. By 2012, international operations accounted for over 40% of gross billings but less than 5% of adjusted EBITDA.

But that is starting to turn around. Aimia's coalition loyalty program in the U.K. has benefited from some big new partnerships, including one with **eBay**. Operations in the United States are slowly gaining traction, Aimia is preparing for an eventual coalition loyalty program launch in the country. The company is also growing quickly in emerging markets, although that still remains a small slice of the pie.

3. An attractive price

Back in 2012, Aimia generated $300 million in free cash flow, which offers a great indication of how profitable the business can be. That number dipped in 2013 as the company made changes to Aeroplan in accordance with the TD switch. But there is no doubt that Aimia is in better shape, and more valuable, than it was two years ago.

Yet Aimia's enterprise value is still only about $3.5 billion, about 12 times the free cash flow number above. For a company with such promising growth opportunities and a great business model, that represents a very attractive entry point.

Foolish bottom line

It is very common to hear people talking about "Buffett stocks", but Aimia is essentially the modern-day equivalent of a company that Mr. Buffett has already invested in. At $17.50 per share, Aimia represents an excellent opportunity for anyone hoping to emulate the Oracle of Omaha.

CATEGORY

1. Investing

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1. NYSE:TD (The Toronto-Dominion Bank)
2. TSX:AIM (Aimia Inc.)
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