Will Aimia Continue to Deliver?

Description

On Tuesday night, loyalty marketer **Aimia Inc** (TSX: AIM), best known for the Aeroplan program, reported results for the first quarter of 2014. Adjusted net earnings came in at 48 cents, up from 27 cents last year, beating analyst estimates by 14 cents. The company also raised its dividend by nearly 6%, which now yields nearly 3.8%.

The shares reacted accordingly, up 3.8%. But there are many reasons why the stock still has plenty of room to run – three are listed below.

1. Growth in Canada

Last year, there was a cloud of uncertainty surrounding the Aeroplan program. But after **TD** (TSX: TD)(NYSE: TD) signed on as a new credit card partner, and a settlement was reached with old partner **CIBC**, Aeroplan is now on much sounder footing.

Based on first-quarter results, Aeroplan is set to grow quite nicely. In the first quarter of 2014, TD exceeded expectations by adding 275,000 new Aeroplan credit card holders. In most years, Aimia adds 50,000 to 80,000. Overall, Aeroplan saw a 12% increase in credit card holders from its partners, and a 15.5% in gross billings.

It will take six to nine months for Aimia to tabulate the spending patterns from all these new credit card holders, but early results suggest that they are about in line with previous trends. And this bodes very well for the program.

2. International opportunities

Back in 2007, the company only consisted of the Aeroplan program, but has grown considerably since then. Now the company has operations in the UK, Middle East, Mexico, and various countries in Asia.

These businesses are not as profitable as Aeroplan, but they are certainly improving. Chief among them has been growth of the Nectar program in the UK, originally the result of a big acquisition in 2007. Aimia will also eventually be launching a coalition loyalty program in the United States, although that will not be happening this year.

3. Reasonably priced

Surprisingly, Aimia is still trading below where it was back in 2007, when it only consisted of the Aeroplan program. Since then, the company has certainly come a long way, even if it hasn't always been a smooth ride.

Put another way, Aimia is trading at only 11 times the free cash flow it earned back in 2012. Since then, there's been a lot of temporary noise, but again the company has made a lot of progress – chief among them the TD deal. Again, it's hard to make the case that Aimia is reasonably worth less than it was worth in 2007.

So for these reasons, Aimia would make a solid addition to your portfolio. As a bonus, you get a nice dividend too.

CATEGORY

1. Investing

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