A 6.7% Dividend Payer You've Never Heard of

Description

In a low interest rate environment, many investors have been grappling for yield. Fortunately, there are still some long-term growers with solid market positions that pay out large dividends.

Aimia Inc. (TSX:AIM) operates loyalty programs around the world for airlines from the ground up. Capabilities include loyalty program strategy, design, launch, and operation. It sells points to its airline partners, and when those points are passed down to customers and redeemed, they become revenue for Aimia.

Aimia is the largest pure-play loyalty program provider in the world.

Dividends you can count on

With a leading global market share, Aimia has been able to pay out a steady and predictable dividend stream. Over the past five years, its dividend has grown at an annual rate of 7.6%, currently standing at $0.76 a share. That's a 6.7% yield.

Gross billings, which eventually translate into cash flow, have been growing for some time. This primary revenue source has grown in each of the past five years by an average of 5% a year.

Strong free cash flow, however, is the ultimate determining factor for the stability of dividend payments. Fortunately, over the past five years the company has generated free cash flow of about $1.35 billion compared to $647 in total dividend payments. As we'll see, excess cash flow after dividends has allowed the company to opportunistically start to repurchase its own stock.

Share buybacks will help support the stock price

In 2010, Aimia instituted a share buyback program and has since bought back over $350 million in shares. Over the past 12 months alone, the company has repurchased $200 million in stock (11% of all outstanding shares).

CEO Rupert Duchesne recently stated that the company's shares are "substantially undervalued" and believes the company should continuing ploughing cash into buybacks. With the stock down 40% in the last year, shareholders may see a healthy return on the company's investment in itself.

A restructuring should also boost returns

Management also recently announced a plan to reorganize Aimia's business structure. The restructuring takes the company from a horizontal to a vertical business structure, allowing them to take a lot of superfluous technology costs out.

In all, Aimia is expected to save roughly $20 million a year beginning in 2016 from these efforts.

Shares are cheap now

Even before the restructuring takes effect, the company anticipates free cash flow for 2015 of $220-240 million. This results in a massive 13% free cash flow yield for investors. With an entirely safe 6.7% yield, a great valuation, and a world leadership position, it’s surprising that more investors aren’t talking about such as great investment opportunity.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:AIM (Aimia Inc.)

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