These 3 Companies Should Be Doing Huge Buybacks

Description

Fool contributor Joseph Solitro suggested July 20 that **Canadian Pacific Railway Limited's** (TSX:CP)(NYSE:CP) second-quarter buyback of 5.13 million shares at an average cost of $169.13 was an indication that management felt its shares were worth more than that. It's also indicative, Solitro reckons, of a company committed to maximizing shareholder value.

Is he right? Well, when it comes to Canadian Pacific, he's absolutely spot on.

Public companies are rarely successful repurchasing shares, often buying at a market top rather than a market bottom. In the second quarter CP's stock hit a high of $193.88 on April 13 and a low of $156.01 on June 21. Essentially, it acquired its shares within 8.4% of its low for the quarter. That's extremely rare and an example of capital allocation at its finest.

When a company sees its stock dip by double digits in less than a year, it absolutely should be buying back its stock. These three companies top the list.

Aimia Inc. (TSX:AIM)

Most Canadians know Aimia as the company that operates Aeroplan, the loyalty program once owned by **Air Canada,** but it spun off in 2002 so it could acquire loyalty programs outside Canada. Today, in addition to Aeroplan, it operates Nectar in the U.K., Air Miles Middle East, and other loyalty programs in addition to several data-driven, marketing-related businesses.

Aimia's share price has cratered over the past 24 months, losing almost 60% of its value. It last traded at these levels in January 2009. In that time its annual revenues have increased by 71% to $2.5 billion while adjusted EBITDA's remained range-bound between $200 and $300 million.

Aimia is already repurchasing its shares—$275 million since November 2014, including $22 million in the first quarter—but I believe it can do better. It's gotten approval from the TSX to purchase up to 11.2 million shares in the 12-month period between May 20, 2016, and May 19, 2017. Last year it maxedout its buybacks at $11.35 per share. Doing so in the next few months could save it as much as $20million.

Magna International Inc. (TSX:MG)(NYSE:MGA)

Down 9.7% year-to-date through July 20 and 27.5% over the past 52 weeks, the auto parts giant is trading where it did in early 2014. It's 32% off its five-year high, so now is the time to strike.

In 2015 Magna repurchased 10.6 million shares for $515 million. In 2014 it repurchased $1.8 billion. In 2016 it's gotten approval to purchase up to 40 million of its shares by November 12, 2016. In its first quarter ended March 31, it repurchased 7.3 million shares for $300 million. That means it can repurchase approximately 30 million shares (7.3 million from Q1 2016 and 3.5 million from Q4 2015) in the two-and-a-half quarters remaining under its normal course issuer bid.

Considering it had a much lower cash balance at the end of March ($625 million) compared to the end of December ($2.9 billion), it's going to be difficult to do this all at once, which is too bad because its stock price took a big dip in late June but has since recovered those losses. However, should its stock price drop below $45 once more, Magna might want to be ready.

Hudson's Bay Co (TSX:HBC)

The iconic Canadian department store conglomerate that's ironically owned by an American is having a rough year; it's down 10.6% through July 20 and 40.6% over the past 52 weeks.

Executive Chairman Richard Baker's been busy, though. In May, HBC announced that it would open 20 HBC stores in the Netherlands over the next two years. Just days ago, it announced the management team that would lead the charge. In addition, HBC CEO Jerry Storch announced in late June the first five locations for its Saks OFF 5TH in Germany. It's truly becoming a global player.

But, with its stock price down 41% and profits hard to come by, it's going to have to pull up its socks in order to pay for its share repurchases—either by actually generating an operating profit (unlikely) or borrowing to make the purchases. Normally, I'm dead set against this practice, but if the team at HBC continue to successfully grow the business on a global basis there will never be a more opportune time to buy back its stock.

Besides, it has five dollars in assets for every dollar in debt, and even after taking into account the Netherlands expansion, it's got the borrowing capacity to reward shareholders.

CATEGORY

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2. NYSE:MGA (Magna International Inc.)
3. TSX:AC (Air Canada)

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