

## Revealed: A 10.4% Yield You Can Actually Count On

### Description

Many investors are looking for high payouts today, myself included. There's nothing that beats a big, fat dividend cheque every quarter.

We have to be careful, however. The world is filled with what I call "sucker yields"—dividends that are too good to be true. Some people take this rule even further, proclaiming any yield of more than 5% is ripe to be cut.

While I agree that a high dividend is riskier than a lower one, that doesn't mean every stock paying greater than 5% annually is a risk. There are dozens of companies out there that have paid terrific dividends for years now and will continue to do so. They're good businesses that just happen to pay out most of their earnings to shareholders.

There are a select few dividends that come along that are the best of the best. Not only do these companies pay great yields, but they also have payouts that are every bit as secure as stocks yielding 2% or 3%.

**Aimia Inc.** ([TSX:AIM](#)) is such a company today. Here's why.

### Lots to like

Aimia is the owner of the Aeroplan frequent flyer program. Dozens of retailers—mostly in the travel niche—give out Aeroplan miles as a customer reward, which are then redeemed for prizes. Most rewards are spent on **Air Canada** flights. Aimia has an agreement with Canada's largest airliner that gives it special deals on tickets. Aimia deserves a good price, since it is by far Air Canada's biggest customer.

Aimia owns another customer loyalty program in the U.K., as well as Air Miles in the Middle East and a 49% stake in Club Premier, the loyalty program for Aeromexico. Club Premier publicly floated the idea of an IPO back in 2015 at a valuation close to US\$1 billion. Aimia's market value today is around \$1.3 billion.

Despite Aimia being Canada's premier customer-loyalty program, shares are down more than 15% in the last year and close to 30% over the last five years. What's going on?

One issue is with the Canadian consumer. Canada's record-setting debt load continues to make headlines. If consumer spending is weak, then people aren't earning as many miles.

There's also increased competition. **WestJet** has its own frequent-flyer program. And many customers are choosing instead to go with travel credit cards that give out more flexible rewards.

And finally, the market is concerned about Aimia's contract with Air Canada, even though the deal doesn't expire until 2020. If the agreement collapses, at least 60% of Aimia's cash flow goes along with

it—perhaps more.

## The opportunity

Aimia shares pay a dividend of 9.6%—a yield is easily affordable if the Air Canada contract gets renewed. But let's look at the worst-case scenario. What happens if Air Canada gives it the boot?

First, Aimia's free cash flow would fall from approximately \$200 million to between \$60 and \$80 million. That's bad news for common share dividends, which will be approximately \$120 million this year.

But it's not a disaster for the preferred shares, which would continue to pay dividends even if the common share dividend was eliminated.

Aimia has three preferred shares outstanding. Each year, these three preferred shares pay investors dividends close to \$17 million. Even if free cash flow is sliced 75% from today's levels, the company still has enough earnings to pay those dividends—and then some.

Let's focus on the preferred shares I own, the Series 3. These trade under the ticker symbol AIM.PR.C. Currently, they pay a 10.4% dividend.

These are rate-reset preferred shares, which means the payout to investors will reset every five years to a yield which equals the Government of Canada five-year bond yield plus 4.2%. This means investors will only enjoy the current 10.4% payout until 2019. Then it drops down to 8.7%, which is still a very attractive dividend.

## The bottom line

I believe Aima's common share dividend is safe. But for investors looking for a little more income with greater security, you can't beat any of the company's preferred shares. They represent double-digit yields that are safe, even if disaster hits.

## CATEGORY

1. Dividend Stocks
2. Investing

## TICKERS GLOBAL

1. TSX:AIM (Aimia Inc.)

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