



Did Air Canada Hammer the Last Nail in the Coffin for Aimia Inc.?

Description

Air Canada ([TSX:AC](#))(TSX:AC.B) soared 10.54% this Thursday as the company announced it plans to launch its own loyalty rewards program in 2020, and that it gave **Aimia Inc.** ([TSX:AIM](#)) a formal notice that it will not renew its contract with Aeroplan, a loyalty program managed by Aimia. The stock of Aimia responded by plummeting a whopping 62.71%, as investors lost confidence and finally dumped their shares of the struggling company. Aimia is now down 86% from its all-time high before the Financial Crisis.

Many Aeroplan members were outraged, and they took to social media to get their thoughts out. Consumers are worried that they won't be able to use their points in time, or that there may be a huge rush near the deadline.

Air Canada stated that customers will still be able to collect Aeroplan points until June 2020, and that Aeroplan members will still be able to redeem their Aeroplan points after this date. But this is not a guarantee, according to David Johnston, interim CEO of Aimia, as things are likely to change in discussions between the two companies going forward.

Mr. Johnston stated that Aeroplan's five million customers with approximately 200 billion miles on their balances can expect a "smooth transition," and that there are "three years left to run on the contract and in that period, it's business as usual."

While Mr. Johnston is attempting to look at the issue on a positive note, investors won't have it, as they're sick of the underperformance. I believe the crash following the news was warranted, and there could be a lot more downside in the weeks that follow. Aimia has been a very difficult stock to own over the last few years, and it appears things are going to get uglier. I see no catalysts that will help Aimia out of its funk and would avoid catching this falling knife if you're thinking about holding it for the long run.

Many analysts are downgrading Aimia's stock, as there appears to be nothing but negative press following the announcement that the partnership with Air Canada will be ending. I wouldn't touch Aimia right now; the only positive thing that can happen for the stock is a dead cat's bounce, which I wouldn't

try to ride.

What does this mean for Air Canada?

For Air Canada, I believe this is a huge positive for the dirt-cheap airline, and I think the news could be the start of a sustained rally to higher levels. There will definitely be a lot of expenditures early on, but over the long term, Air Canada's own loyalty program will be a huge driver of earnings once everything is ready to go.

Kenric Tyghe, a retail analyst at Raymond James, stated, "If [Air Canada] internalize[s] the program, the belief is they can ... drive better profitability from the loyalty initiatives than by having the loyalty initiatives managed externally." This will definitely a terrific news for long-term shareholders of Air Canada and devastating news for Aimia shareholders who were looking for a rebound.

Air Canada is already an undervalued stock with many tailwinds. This plan to introduce an internal loyalty program is just another long-term tailwind that I believe will send Air Canada flying into the stratosphere.

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