4 Reasons to Stay Away From Aimia Inc.

Description

Aimia Inc.'s (TSX:AIM) stock price declined over 60% when news broke that **Air Canada** (TSX:AC)(TSX:AC.B) would be discontinuing its Aeroplan program. The share price has gone from trading over $9 to less than $2 — a low that was reached just a few months ago. However, in the past three months, the company's share price has seen a significant recovery, appreciating over 66% in value, and it currently trades at over $2.60 per share. That is still a far cry from where Aimia was months ago, but it suggests investors still believe that the marketing and loyalty analytics company could see a recovery.

However, there are four reasons why I believe there isn't much hope left and why you should avoid this stock.

Liquidity could be a problem

The company is focusing on its liquidity by trying to strengthen its balance sheet and cash flow, so it can be better equipped for any opportunities that may come up and also in preparation for 2020 when the relationship with Air Canada officially ends. A couple ways that Aimia has done this is by stopping its dividend payments and by selling its Air Miles Trademarks for $53.75 million to **Diversified Royalty Corp.**

Liquidity issues are a valid concern, as the company's current ratio was just 0.37 this past quarter, meaning current liabilities are almost triple the value of Aimia's liquidity. If cash flow starts to tighten up, the company could quickly run into problems paying its bills.

The business has a lack of moat

The service that Aimia offers can be replicated by companies internally, and new competitors could enter the industry without significant obstacles. Many companies have IT departments and lots of capabilities internally to manage and collect customer data, and that's why it shouldn't come as a big surprise as to why Air Canada has decided to manage and operate its own loyalty program.

If Air Canada wasn't able to see enough value to justify the costs of paying Aimia to manage its loyalty program, it’s not likely other companies will either. Without a moat, a company’s potential is finite and dependent on how attractive the space is to other competitors.

The shares are still overpriced

In the company’s most recent financials, the book value of its shares was just $0.18, meaning the current stock price trades at a multiple of almost 15 times that amount. Investors that have bought low have seen incredible returns in the short term, but it’s only a matter of time before those investors start cashing in on those big gains and start selling the stock.

Sales are dropping, and the bottom line is suffering

Aimia’s sales were down over 10% in the last quarter, but more troubling was that its bottom line was in the red for the third time in the past four quarters. In the trailing 12 months, the company has posted a net loss of over $74 million.

Bottom line

It is hard to see the upside in this company over the long term, and unless Aimia can land another big fish, then it’s unlikely this recovery will last much longer.

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