Why Resolute Forest Products and Aimia Inc. Plunged Over 30% Last Week

Description

Stocks rise and fall for many reasons, but large-scale sell-offs like the ones we saw in **Resolute Forest Products** (TSX:RFP)(NYSE:RFP) and **Aimia Inc.** (TSX:AIM) last week should make you pause and really dig deep to see what is happening with the company or companies. With that in mind, let's find out what happened.

Resolute Forest Products

Pulp and paper products producer Resolute Forest Products watched its stock drop 30.1% last week as a result of the release of its preliminary fourth-quarter and 2017 earnings on February 1. Here's a breakdown of its results:

Q4 2017:

- Adjusted net income of US$14 million, or US$0.15 per share, compared with an adjusted net loss of US$7 million, or US$0.08 per share, in the year-ago period
- Sales of US$898 million, an increase of US$9 million, or 0.9%, from the year-ago period

Full year 2017:

- Adjusted net income of US$12 million, or US$0.13 per share, compared with an adjusted net loss of US$12 million, or US$0.13 per share, in 2016
- Sales of US$3.5 billion, a decrease of US$32 million, or 1%, from 2016

Even though Resolute's financials showed major improvement in 2017 compared with 2016, investors could not ignore the fact that its overall volume decreased, and my Foolish colleague, Maxx Chatsko, pointed out that "the North American pulp and paper industry is slowly losing steam and losing market share to newer infrastructure in Asia."

Resolute's outlook didn't help calm investors either, as it noted that it expects truck driver shortages to affect all of its business segments in 2018, and that it will have to "continue to manage through U.S. capricious and arbitrary trade measures," which has and will continue to impact its lumber and paper markets.

With all of this being said, I agree with Maxx that +30% drop in Resoulte's stock was a bit overdone given its improved financials and strong cash flow–generating ability, and I think it represents an intriguing long-term investment opportunity today at just seven times fiscal 2018's estimated EPS of US$1.14.

Aimia Inc.

Data-driven marketing and loyalty analytics company Aimia, a former stock market darling that lost its lustre after **Air Canada** announced its plans to launch its own loyalty rewards program in 2020 and not renew its contract with Aimia's Aeroplan program, watched its stock plummet 39.2% last week thanks to its announcement that it "has sold its Nectar loyalty program and related assets to **J Sainsbury plc** for a gross consideration of approximately $105 million."

Aimia stated that the transaction will allow it to focus on Aeroplan, its "largest and most profitable business," and preserve "a robust balance sheet," but what it failed to mention in the release is how it acquired Nectar back in 2007 for $755 million. It doesn't take a mathematician to figure out that buying a company for $755 million and selling it for $105 million 11 years later is not good at all, so it's no wonder that the market is giving its stock an absolute beating as a result.

Aimia lost its largest customer and cut its dividend in 2017, and I do not see things getting much better anytime soon, so I think all Foolish investors should avoid its stock indefinitely.

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