



Air Canada (TSX:AC) Acquires Aeroplan: What Does This Mean for Investors?

Description

Air Canada ([TSX:AC](#))(TSX:AC.B) announced on Tuesday that the company, along with three others, had acquired the Aeroplan from **Aimia Inc** ([TSX:AIM](#)) for \$450 million cash. Last month, Air Canada made a [smaller bid](#) for the loyalty program, which was not long after Aimia had announced plans to [launch its own airline](#). In addition to cash, the group of companies acquiring the Aeroplan will also assume the Aeroplan Miles liability as well, which totals around \$1.9 billion. The deal is expected to close later this year.

What the move means for Air Canada

This acquisition will help to encourage Air Miles Collectors to continue using their cards without fear or uncertainty as to what will happen with the points as the existing agreement between Aimia and Air Canada approaches a close in 2020.

Had Air Canada not reached this deal, it could have faced the very real danger that some of its most loyal customers would jump ship over to Aimia or other airlines. Aimia was looking to make the loyalty program more flexible for members, and that likely would have resulted in less travel on Air Canada. Through the acquisition, however, the airline can effectively keep the plan unchanged and have control over the redemption options.

While Air Canada may claim that this was done for the customers and the ease of switching over to its new loyalty program, in reality, the big losers in all of this are the consumers, who would have had more choice under Aimia's revised program.

What does this mean for Aimia?

In its release, Aimia was very brief, sticking to the details of the deal and omitting what this means for the company's future. The expectation previously had been that the Aeroplan would help the company build a model for its airline to make smarter flights available, ones that would be in demand rather than offering every route. It was a good idea, but now with the Aeroplan out of the picture, it seems as though Aimia would have to start from scratch.

In the short term, it's a win for shareholders that get to see the value of the company rise, as Aimia was able to secure a higher dollar value for its loyalty program. But in the long term, it raises many questions. After all, the Aeroplan was what Aimia had become known for, and without that, it's difficult to assess whether the stock is a good long-term buy.

It was a surprising move for a company that rejected the initial deal and seemed intent on building something much bigger than just a loyalty program. I'm a bit disappointed in the decision, as I would have loved to see what Aimia could have done, and by having the Aeroplan program, it would have had a good head start right out of the gate.

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