



Investors: This Special Situation Could Make You 8.2% in Just 3 Weeks

Description

One of the things I love the most about investing is there are so many ways to turn your money into more money. Everything from long-term investing to shorting stocks are viable alternatives, with each having their place depending on the state of the overall market.

Searching for obscure regulatory filings can be one of the best places for an investor looking to generate alpha. These special situations can often be quite lucrative, since most other investors hardly know they exist.

I'd like to highlight one of those situations today. It has the potential for an 8.2% return in just 19 days, which works out to an annualized return of 158%.

Intrigued? You should be. Let's take a closer look.

The fall of Aimia

Up until 2017, life was pretty good for **Aimia** ([TSX:AIM](#)) shareholders.

The company was the sole owner of the Aeroplan customer loyalty plan, an asset it held from the beginning of its life after being spun out from **Air Canada**. Aeroplan has been one of Canada's largest loyalty plans for years now, with membership exceeding five million people.

I really liked a few things about the stock. The company gushed free cash flow, as it issued miles at a faster rate than customers redeemed them. The value of miles was regularly sliced — a type of forced inflation that would protect investors from the large cache of miles being accumulated. And Aimia paid a large dividend — a payout that was easily supported by underlying cash flow.

There was just one problem: the contract between Aimia and Air Canada was scheduled to expire in 2020. I, along with thousands of other investors, viewed it as a slam-dunk renewal opportunity, since both sides seemingly got a benefit from the deal.

But Air Canada saw things differently. It announced back in 2017 that it would not be renewing its contract with Aimia, preferring instead to launch its own loyalty program. Naturally, Aimia shares tanked on the news; the company still hasn't really recovered.

A cynic might say what happened next was Air Canada's plan all along, while someone else might say Canada's largest airline took advantage of a bad situation. The end result was Air Canada purchasing Aeroplan from damaged Aimia for \$497 million, some 10% more than was originally reported when news of the deal broke.

At this point, Aimia had just a couple main assets left. It holds a stake in Aeromexico's loyalty program, and it owns the Air Miles trademark for the Middle East. Investors speculated the company would sell these assets and dissolve, but management went in a different direction. Aimia announced it would pursue a new strategy of buying and operating loyalty programs.

The opportunity

Aimia, flush with cash from the Aeroplan sale, recently announced a big share buyback, which will be done by a modified Dutch auction method.

The company will pay investors anywhere between \$3.80 and \$4.50 per share (in \$0.05 per share increments) for up to \$150 million worth of stock. Aimia will start buying at the lowest price and keep going until it either runs out of shares or money.

In my experience, investors in this situation usually go for the maximum and will tender their shares at the \$4.50 price point. This means if you purchase shares at the going price today — which is \$4.16 each — and sold them back to the company at \$4.50 each 19 days from now, you'd make an 8.2% return. Not bad for fewer than three weeks.

The problem is, there's no guarantee the company will repurchase shares for the highest amount, of course. Some investors might decide they're happy getting out for \$4.35 or \$4.40 per share. Remember, the deal is only valid until Aimia runs out of cash.

The good news is Middleman Brothers, Aimia's largest shareholder, has indicated it will not be participating in the deal. Middleman owns a little over 18% of Aimia's shares.

The bottom line

Special situations like this one will always be interesting to me. I believe there's a nice profit to be made here, but risks do exist. There's no guarantee this deal works out profitably for you, but I like its chances.

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