This 1 Stock Doesn’t Deserve Your Loyalty

Description

It’s kind of ironic that the company specializing in loyalty programs has a hard time attracting investors, as indicated by the stock’s 18% decline from this year’s all-time high.

The stock I am referring to is **Aimia** (TSX:AIM), which recently finalized the sale of Aeroplan to **Air Canada**, **TD**, **CIBC** and **Visa Canada**. The consortium has agreed to pay $450 million in cash and assume the liabilities associated with Aeroplan miles.

Aimia used $308 million to pay off its credit facility and redeem all outstanding senior secured notes with the remaining $100 million in a restricted account jointly controlled by Air Canada and Aimia.

Unfortunately for Aimia, the company sold its most valuable asset, which means that investors have very little to gain by investing in Aimia today. This is indicated by declining revenues and the recent sale of some of its position in **Cardlytics**.

Declining revenues

You don’t have to be Warren Buffett to know that declining revenues are not a good sign for a business.

Aimia’s revenues for the past five years have been dismal with a decrease from $2.5 billion in fiscal 2014 to $167 million in fiscal 2018.

After the sale of Aeroplan, Aimia found itself debt-free with significant amounts of cash. I am curious to see Aimia’s strategy going forward, as a shift to an acquisition-centric growth model could prove to be advantageous for investors.

If Aimia is pursuing an acquisition-centric growth model, then I would be bullish on the stock, as one of the greatest challenges for companies that participate in acquisitions is managing the debt it takes on to finance the acquisition.

Given Aimia’s current cash position, it can acquire company’s on a strictly cash basis, which means that leverage will not be an area of concern for the company.

Sale of shares in Cardlytics

Aimia made a move recently and sold almost half of its stake in Cardlytics for $59.8 million. It cites the reasoning behind the sale as needing money for future acquisitions.

Given that Aimia was sitting on $381 million of cash as at December 31, 2018, I am not a fan of this sale, as I believe Aimia has more than enough cash reserves to fund acquisitions without the need to sell off its investments.

Further to this, the company is engaged in an internal battle as its largest shareholder, Mittleman Brothers LLC has been fighting the company over appointments to the board of directors.

Internal conflicts spell bad news for investors, as it is unrealistic to expect a company to look after the interest of its investors if it can’t look after the interests of its own members.

Summary

Aimia stock has declined 18% since its all-time high in 2019. In addition to this, the company is experiencing declining revenues from $2.5 billion in fiscal 2014 to $167 million in fiscal 2018.

The only way that I envision the company reversing this downward trend is through acquisitions, which it is in a good position to do. Given that the company has a lot of cash and no debt, an acquisition-centric growth model is both logical and important for the future success of the business.

Even if you’re an investor that can stomach risk, Aimia is not a stock for you.

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