



TFSA Investors: Is This 1 Stock Poised for Significant Growth?

Description

Aimia ([TSX:AIM](#)) is a loyalty and travel consolidator that derives its revenues from investments in loyalty and travel markets.

Aimia completed the sale of Aeroplan in January this year for cash consideration of \$450 million and the transfer of \$1.9 billion in liabilities. The consortium includes **Air Canada, TD Bank, CIBC** and Visa Canada Corp. This was a [controversial sale](#).

An interpretation of the numbers

For the nine months ended September 30, 2019, the company reports a strong balance sheet with \$572 million in retained earnings, up from negative retained earnings of \$295 million as at December 31, 2018. This is due to the sale of Aeroplan that allowed Aimia to pay off its debts and increase its retained earnings balance.

In absence of Aeroplan, the company reports total assets of \$709 million on \$137 million in liabilities. This is a good sign for investors, as it suggests that the company isn't heavily leveraged.

Looking at the statement of operations, the company reports revenues of \$99 million for the nine months ended September 30, 2019, down from \$175 million the prior year. Despite this, pre-tax income is up to \$52 million from a \$14 million pre-tax loss in 2018.

Cash flows are hard to gauge in this period due to the sale of Aeroplan. Aside from the sale, the company spent \$183 million to purchase and cancel shares and paid \$74 million in dividends during this period.

But wait, there's more

Looking at the company's notes to its financials highlights a couple of important items.

First, the company repaid the entirety of its \$300.9 million of long-term debt using proceeds from the sale of Aeroplan. The pay down of debt consisted of a \$51.1 million reduction in its operating facilities and a \$250 million payment of its senior unsecured notes.

This represents fiscal responsibility on the part of management, as interest on debt usually represents a material amount of total expenses. By eliminating its debt, Aimia is no longer required to make interest payments.

Second, the company is suing Mittleman Brothers, LLC for \$50 million on the grounds that it allegedly engineered a campaign to take over the company.

The firm filed a counterclaim against Aimia and is requesting \$125 million in compensatory and punitive damages and \$30 million in compensatory damages in connection with the sale of Aeroplan.

While the outcome of the lawsuits can't be determined, investors should look into the ongoing legal dispute before making an investment decision.

Third, the company issued a substantial issuer bid (SIB) in March, 2019 for \$150.8 million, which it used to purchase and cancel 34,887,702 common shares. SIBs are issued when a company's normal course issuer bid has been maxed out, which sends a strong signal that management believes shares prices are undervalued.

Foolish takeaway

Investors looking to diversify their portfolio and purchase shares of a loyalty program investment company should consider buying shares of Aimia. Fool contributor David Jagielski [begs to differ](#).

Although it isn't crystal clear as to the company's strategy, Aimia reports a solid balance sheet, no long-term debt and recently issued a SIB, indicating an undervalued share price.

Investors who are worried about Aimia's ability to generate future revenues in the absence of Aeroplan are justified. That said, I believe that Aimia is well positioned to make a name for itself in the loyalty industry once again.

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