

CIBC-Aimia Card Accord Seen Surviving Rift: Corporate Canada Bloomberg.com, March 13, 2013

By: Doug Alexander

Canadian Imperial Bank of Commerce and Aimia Inc. say they're willing to end their profitable credit card partnership after 22 years over a disagreement on terms. Analysts aren't buying it.

CIBC, Canada's fifth-biggest bank, says it's exploring options as it negotiates with Aimia, owner of the Aeroplan rewards program, before their agreement expires at year end. The partnership has made the CIBC Aerogold Visa the bank's most popular credit card. Aimia, whose shares outperformed Canada's benchmark stock index six-fold during the past year, counts CIBC as its biggest partner.

"At the end of the day, we'd be surprised if Aeroplan didn't have a contract," said **Kathleen Wong**, a **Veritas Investment Research Corp.** analyst who cut Aimia's rating to "sell" from "buy" on March 1. "CIBC has a very lucrative contract already and it's making good money for both of them. There's a mutual benefit for each other."

Aeroplan began in 1984 as a promotional tool for business travelers on Air Canada, the country's largest airline. CIBC Aerogold Visa was started in 1991, according to Montreal-based Aimia. The card allows users to collect Aeroplan points for travel on Air Canada and get goods from retailers.

Lower Rate

CIBC, which buys Aeroplan miles from Aimia to give to cardholders on purchases, may try to negotiate a lower rate for those rewards points, according to **Wong**. If CIBC gets a 5 percent reduction in the selling price of Aeroplan miles, she estimates, Aimia's intrinsic value would fall by about C\$1.20 a share. That's about 7.9 percent of the value of Aimia's stock, based on yesterday's C\$15.15 closing share price on the Toronto Stock Exchange.

"CIBC has introduced other cards to try to wean people away from Aerogold," said Ian Nakamoto, director of research at MacDougall MacDougall & MacTier Inc. in Toronto, which manages about C\$4 billion (\$3.9 billion) in assets. "It would be different if CIBC didn't have anything else to offer."

Losing CIBC as a partner would force Aimia to negotiate with other Canadian banks to link cards to its Aeroplan program.

Toronto-based CIBC represents roughly 25 percent of about C\$2.25 billion of Aimia's gross billings, according to analysts Tim Casey, John Reucassel and Fadi Chamoun of BMO Capital Markets.

'Major Risks'

"Any change in a credit card partner carries major risks for Aimia," the analysts said in a March 7 note. "We believe the most likely scenario is a renewal, but for Aimia there seems to be more downside than upside."

Aimia posted a 22 percent return during the past 12 months, compared with the 3.6 percent gain of the Standard & Poor's/TSX Composite Index. The company also owns the U.K. reward program Nectar, whose partners include British grocery chain Sainsbury's. Aimia said Feb. 27 that it had profit of C\$166.7 million last year, compared with a net loss of C\$77 million in 2011.

CIBC shares have risen 12 percent in the past year, outperforming the 8.6 percent return of the eight-bank S&P/TSX Commercial Banks Industry Index. Kevin Dove, a CIBC spokesman, declined further comment on talks with Aimia.

Aimia, which also has a pact with American Express Co., is already approaching other banks, according to Chief Executive Officer Rupert Duchesne.

'Extended Process'

"To ensure that we're maximizing the significant value of our premium Aeroplan brand and program, we have extended the process to include a selected number of other major Canadian financial institutions in addition to CIBC," Duchesne said during Aimia's Feb. 28 earnings call with analysts.

Toronto-Dominion Bank may be the likeliest lender to be interested in becoming an Aeroplan partner, according to **Wong**.

National Bank of Canada may also be interested, though it would be less lucrative than a CIBC contract because the Montreal-based lender has a smaller market share for cards.

Aimia may be approaching Toronto-Dominion and Royal Bank of Canada, BMO Capital Markets said, though an agreement would be less important to those banks as they already offer competing travel rewards programs with more flexibility than Aeroplan.

Spokesmen for all three of the banks declined to comment.

"During this process we have confirmed that we have options that would be attractive to Aimia and our shareholders," JoAnne Hayes, an Aimia spokeswoman, said while declining further comment beyond Duchesne's statements.

'No Assurance'

David Williamson, CIBC group head of retail and business banking, said in a Feb. 28 earnings call there's "no assurance" the Aeroplan agreement will be extended so the lender is "exploring alternatives."

Aerogold represents half of CIBC's credit card business, or about 7 percent to 8 percent of total earnings, and is a "key differentiated premium product for CIBC in a crowded premium credit card market," according to BMO Capital Markets.

CIBC earns about C\$540 million from its credit card operations, including Aerogold, or roughly C\$1.35 a share of estimated 2014 cash earnings, BMO Capital Markets analysts said.

The loss from non-renewal could approach C\$168 million, representing 4.8 percent of total annual earnings.

"We suspect CIBC is trying to play hardball with Aimia in the upcoming negotiations," **Veritas Wong** said. "This is a material contract for Aimia."

Lower Rate

Canadian Imperial introduced an Aventura Gold Visa in 2003, offering lifestyle and travel rewards with purchases. The bank currently offers two Aventura MasterCard cards and two Aventura Visa cards.

Canadian Imperial had an average balance of C\$15 billion from credit cards as of Jan. 31, its lowest in two years and down from C\$15.9 billion two years ago, according to CIBC financial statements. CIBC earned C\$156 million from card fees in the first quarter, representing about 5 percent of the lender's revenue.

CIBC is Canada's second-biggest credit-card issuer, following Toronto-Dominion, based on total outstanding balances, according to the March 2012 issue of The Nilson Report, a credit-card industry

publication. CIBC was the largest issuer of Visa Inc. cards based on outstanding balances, the report said, though Royal Bank had the most Visa total volume, purchase volume and purchase transactions.

A loss of the Aeroplan partnership may create other opportunities for Canadian Imperial, according to Alfred DuPuy, a managing director at Interbrand, a London-based brand consultancy.

“CIBC has relied on Aeroplan for a long period of time to help build their database and help build their customers,” DuPuy said in a telephone interview from Toronto. “Although in the short term it might hurt them, it actually might present them with a pretty interesting opportunity to do something bigger and badder and rather innovative that nobody else is doing.”