3 Reasons You Ought to Bet on This Small Cap in 2018

Description

The Fool's Joseph Solitro was all over the latest announcement from **Great Canadian Gaming Corp.** (TSX:GC) on December 19; the casino operator gets four more gaming facilities in southern Ontario. Its stock jumped more than 14% on the news.

During high school, I went to Mohawk Racetrack as well as Flamboro Downs to watch harness racing on Friday and Saturday nights. It was a cheap way to spend a weekend night. Both have slot machines now, and the Ontario Lottery and Gaming Corporation (OLG) intends for Great Canadian Gaming to grow revenues at these facilities as well as the OLG Casino Brantford and OLG Slots at Grand River Raceway.

Has ownership in some of Ontario's busiest gaming facilities

However, the most significant winner from this announcement could be investors in **Clairvest Group Inc.** (TSX:CVG).

The little-known Toronto holding company made headlines back in August when it took a small 2% stake in the partnership run by Great Canadian Gaming and **Brookfield Business Partners LP**, which would operate Woodbine Racetrack's gaming operations and two other casinos in southern Ontario.

At the time of the Woodbine announcement, Clairvest was a definite thumbs-up, in my opinion. After this latest news, in which Clairvest gets 45% ownership in the Ontario Gaming West GLA Limited Partnership (Great Canadian Gaming receives 55%), which will operate the four gaming facilities for at least the next 20 years, it's two thumbs up.

If anyone knows how to grow gaming revenues, it's Great Canadian Gaming.

In the past five years, it's grown revenues by 46% from $388 million in 2011 to $566 million in 2016. That's not too shabby for a business that's operating in a heavily regulated industry. The four assets it will manage have annual gross gaming revenues of $450 million. With a little hard work and marketing, the revenues are sure to rise in the next two to three years.

It’s a nimbler operation than its bigger Canadian peer

About a month before the Great Canadian Gaming/Brookfield/Clairvest announcement, I wrote a piece about which private-equity stock was worth owning: Clairvest or the much more prominent **Onex Corporation** (TSX:ONEX) run by Gerry Schwartz.

Ultimately, while I liked both investments, I went with Onex because of its size. Six months later, in hindsight, the results speak for themselves. Onex is down 9% since July, while Clairvest is *up* 32% in the same period.

Honestly, if I could have seen the two investments coming, I might have altered my decision, but that’s water under the bridge. The reality is that Clairvest plays with smaller numbers than Onex, but that doesn’t reduce the attractiveness of its investments; it just makes them different.

Over the past 15 years, Clairvest’s average annual total return is 13.8% — 88 basis points higher than Onex’s.

Clairvest’s returns might not be as flashy from one year to the next — except this year, where it’s up 53% with one week to go — but over the last decade, it’s only seen two years in negative territory (2008 and 2009), and both times the declines were kept to single digits.

That’s my kind of stock.

Clairvest understands the racing business

I must admit that I missed the significance of the company’s harness and thoroughbred racing investments when I wrote about it in July. However, reading the November 16th news about **Caesars Entertainment Corporation** buying Centaur Gaming, the operator of several racing and gaming facilities in Indiana, an operation that Clairvest first got involved back in 2010, gives even greater confidence about its decision to get involved with Great Canadian Gaming.

According to the press release, the sale will increase Clairvest’s book value per share by $3 to $40.89. That, my friends, is a good thing.

Bottom line on Clairvest

It might only have a market cap of $700 million, but Clairvest punches much higher than its weight. As small caps go on the TSX, it doesn’t get much better this.

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