This Small-Cap Financial Is a Steal Under $40

Description

If there's a TSX-listed company that punches way above its market cap of $650 million, my vote would have to go with **Clairvest Group Inc.** (TSX:CVG).

The small-cap private equity firm gained notoriety in late 2017 when it partnered with **Great Canadian Gaming Corp.** (TSX:GC) to snag a lucrative 20-year contract to operate and develop four GTA casinos and racetracks for the Ontario Lottery and Gaming Corporation.

Despite the media coverage, Clairvest still flies well under the radar of most investors, with just 1,300 shares trading hands on an average day. **Canopy Growth Corp.**, by contrast, trades that many every five seconds.

If you need liquidity, Clairvest is not for you.

However, if you're a buy-and-hold investor, Clairvest is the perfect stock to own, because you can put it in a drawer and forget about it.

Strong third-quarter earnings

Clairvest announced its latest quarterly results February 13, and they were exceptional. A lot happened during the three months ended December 31, 2017, and into the fourth quarter.

As already mentioned, Clairvest managed to snag a pretty lucrative contract with Great Canadian Gaming, which should continue to pay dividends for years. Like all private equity businesses, the name of the game is to recycle your capital as fast and profitably as you can. The longer you've got your capital tied up without an exit, the lower the internal rate of return.

As they say, time is money.

On January 8, 2018, Clairvest announced that it had sold its interest in Wellington Financial, the technology venture capital lender it launched in 2000 with CEO Mark McQueen. The buyer? None other than my favourite Canadian bank, **Canadian Imperial Bank of Commerce**, which rolled Wellington into its newly created division, CIBC Innovation Banking, to be headed by McQueen.

It's a strategically important deal for CIBC, while Clairvest gets to exit a very successful partnership with significant coin in its pocket — $29.1 million in gains, including $24 million in CIBC stock that must be held for 36 months — and the opportunity to recycle some of its capital.

The number that you want to focus on is book value per share. That's how Warren Buffett evaluates **Berkshire Hathaway Inc.'s** (NYSE:BRK.A)(NYSE:BRK.B) progress; Clairvest does the same.

In Q3 2018, Clairvest's book value was $42.78 per share, 12.9% higher than in the second quarter. Excluding the $1.15 gain in book value from the Wellington Financial exit, Clairvest increased book value by 9.8% or $3.73 per share.

In 1997, Clairvest's book value per share was $6; today, it's $42.78 — a compound annual growth rate of 10.3%. That's identical to Berkshire Hathaway's growth in book value over the same period.

At under $40, it's a steal

Clairvest currently trades at one times book value, almost half Berkshire Hathaway's multiple of 1.6. While it has historically sold around one times book, anything less than that given how far the markets have come (I'm talking about the U.S.) in recent years would be a definite buy signal.

At $43, it's fairly priced but worth owning. At under $40, it's a steal.

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