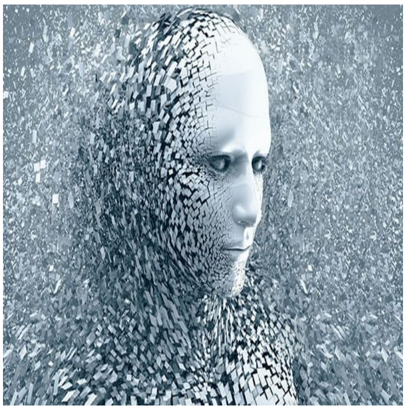

2 Small-Cap Growth Stocks to Consider for Your TFSA

Description

Inflation in Canada hit 2.3% in the month of March, thereby strengthening the case for a rate hike. Higher costs for gasoline and air transportation led the way, while food costs actually fell slightly month over month. Prices at restaurants shot up in January and February, with many citing the new minimum wage laws as the reason for the increase.

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Shares of **Cara Operations Ltd.** (TSX:CARA), a Vaughan-based company that owns and manages franchise restaurants, have climbed 4.1% in 2018 as of close on April 25. However, today we'll look at two small-cap stocks in the food and beverage industry. With the **S&P/TSX Composite Index** struggling to gain momentum in early spring, investors may want to consider both for their TFSA as Canadians put tax season behind them.

Freshii Inc. (TSX:FRII)

Freshii is a Toronto-based quick serve restaurant with a focus on fresh and nutritious food options. The stock made its debut on the TSX in January of 2017. Shares reached as high as $15.09 in the first two months of trading, but the company was forced to curb its expansion ambitions, which sent the stock down in the latter half of 2017. The stock is down 9.4% in 2018 and 45% year over year.

The flurry of disappointments in 2017 need not deter investors, however, as the future still looks bright for Freshii. Forecast adjustments are also fairly common for newly listed companies. In the fourth quarter of 2017, Freshii opened 25 net new stores, bringing the total to 92 last year. In Q4 the company reiterated its 2019 outlook, aiming for a store count of between 730 and 760 and annual same-store sales growth of between 3% and 4%.

Freshii is expected to release its 2018 first quarter results in a conference call on May 10.

The Second Cup Ltd. (TSX:SCU)

Second Cup stock has been on a downward trajectory since the beginning of this decade. However, management has succeeded in improving profitability with new product offerings and a streamlining of its franchises. Adjusted EBITDA jumped 383% in the 2017 fiscal year and the company was back in the black after an almost $1 million adjusted loss in the prior year.

The news was good in February, but shares of Second Cup have surged 38.7% in 2018 for another reason. In April, Second Cup announced that it would seek to convert some of its coffee shops into cannabis stores in provinces where private sales are legal. Second Cup Chairman Michael Bergman has said that the conversion could dramatically boost revenue for a number of its stores.

Shares of Second Cup have retreated from a high of $4.05 reached after the news broke. Priced at $3.01 as of close on April 25, the stock represents an attractive speculative buy ahead of recreational legalization, which is mere months away. Cannabis stores would likely sprout up in Western Canadian provinces such as Alberta and B.C., where private sales are legal, but there is a possibility that Ontario could legalize private sales in the near future as well.

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1. TSX:FRII (Freshii)
2. TSX:RECP (Recipe Unlimited)

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