Acumen Capital has put together a list of small-to-mid-cap companies that analyst Brian Pow and his team believe have special situations — acquisitions, debt repayment, dividend increases — that will act as catalysts for growth and higher share prices.

The companies range in market cap from below $100 million (Canadian) to more than a $1 billion. They’re a diverse bunch operating in real estate financing, aerospace and defence electronics, rail ties and utility poles, air cargo and food court restaurants.

The potential gains for these stocks are enticing. Acumen has price targets that assume upside of anywhere from 12% to 48%.

Let’s get started with the commentary from the analysts at Acumen Capital on their five special situations best ideas:
Terra Firma Capital Corporation (TII-V). Speculative BUY
$1.05 Target Price, implying 48% return.

“We recently met with management. With a 2017 outlook and a large runway for growth in the United States, we believe there is significant upside to where TII is currently trading.

Highlights of our meeting with management are below.

- **Management Track Record.** Management has a strong track record of creating shareholder value in previous roles at alternative lending companies. Glenn Watchorn was at Tricon Capital (TCW-T), where he completed billions of dollars of deals in his career (primarily in the U.S.).

- **Insider Ownership and Buying.** Insiders own 22% of TII providing a strong incentive to create shareholder value. Watchorn (President and CEO) and Y. Dov Meyer (Executive Chairman) bought 153,000 shares between $0.56-$0.58 on November 15, 2016.

- **Geographic Shift.** TII is agnostic as to whether it deploys capital in the United States or Canada. As a result, the company is focusing more on the U.S. market where yields are higher. The United States is ~40% of TII’s portfolio; this is expected to move towards ~80%. Glenn’s previous experience lends credibility to this projection.

- **Quality of Assets.** TII lends to assets, not borrowers. This provides security, ensuring that even if a loan goes into default, TII will be repaid with interest and fees. With the exception of Urbancorp that is still working towards a resolution, TII has never had a loan loss.

- **Share Price vs. Book Value.** TII is trading at a discount to the undiluted book value of $0.79. TII’s historical price-to-book value is 1.2 times. Until recently, the discount has been equal to the $11 million of loans in arrears with Urbancorp.

- **Management acknowledged** that 2016 was a weak year as TII was not been able to record revenue on its equity positions and loans in default. As the equity investments are completed and loans in default are resolved in 2017, TII expects record results.

- **There are two near-term catalysts** for TII. While we are bullish on the story, we caution investors that there is some uncertainty as to timing.

- **Deployment of Capital.** TII previously indicated in November that they had signed letters of intent for $40 million. Management is in the process of completing these transactions with full deployment expected by the end of Q1 2017.

- **Resolution of Loans in Arrears.** We expect further resolution of the loans in arrears that would allow TII to record revenue in the Q4 2016 and/or Q1 2017 results.
Firan Technology Group Corp (FTG-T). BUY, Target Price $4.95, implying 27% return.

We initiated on FTG in August, 2016 following two significant asset acquisitions completed earlier that year (Photo Etch and Teledyne). FTG is up 61% since our initiation, and we see further price potential given the positive macro outlook for the global aerospace and defence (A&D) industry and FTG’s ability to capitalize on these trends. We recently published our 2018 estimates and highlight the following catalysts for the upcoming year:

- **Acquisitions will help fuel financial performance.** FTG is well positioned to deliver strong year-over-year financial growth, on the heels of successfully integrating the two acquisitions of 2016.

- **Integration progressing smoothly.** The Company completed the transition of Photo Etch operations into FTG facilities ahead of the year-end 2016 target. Also, we expect FTG to complete the Teledyne transition by early April, 2017. That acquisition continues to surprise to the upside, with better than expected demand and strong retention rates.

- **Favourable industry growth.** The A&D market appears to have bottomed out, and we expect the industry to experience single-digit growth in fiscal 2017 and fiscal 2018. We expect FTG to capitalize on its new customer relationships and increased facility utilization, which combined should drive top line growth in excess of industry levels.

- **Expecting further margin improvement.** Based on our discussions with management, we see several scenarios where the gross margin can improve by 50-to-100 basis points in 2018 (we are currently forecasting 26.7% gross margins in 2017 and 2018). Our estimates result in adjusted EBITDA and free cash flow growth in 2018, with adjusted EBITDA up 8.8% year-over-year (y/y) to $15 million, and free cash flow (FCF) up 10.5% y/y to $12.2 million.

- **Many reasons for the Company to outperform expectations.** We see the potential for FTG to beat our estimates on better efficiencies, new contract wins, and further mergers and acquisitions. Strengthening of the global A&D markets and efficient integration of acquired assets will benefit the Company.
Stella-Jones Inc. (SJ-T). **BUY,**
Target Price $52.50, implying 23% return.

Recent data provided by the Railway Tie Association (RTA) summarized a pullback in production and demand for cross ties (down 6% and 34% from September levels, respectively, and down 18% and 42% y/y, respectively). RTA indicated that purchases are up 0.2% on the trailing 12 months, and production is up 5.6% y/y. We discussed the report with SJ management and had a general business update.

- **Tie business.** The RTA data corroborates the guidance that management provided with its Q3 2016 financial report. SJ ventured that the near-term weakness from was in part the timing of placing 2017 orders and expects to see the orders come back starting in Q1 2017. End user pricing moved down with the lower demand which in turn resulted in a reduction in white tie pricing.

- **Utility poles.** SJ acknowledged that some of the regional weakness for utility poles has improved since the Q3 2016 update. Pole replacement still provides the biggest upside going forward for this category.

- **Residential lumber.** This category is now a large contributor to overall performance as a result of the acquisition of Ram Forest Group in October 2015. We expect SJ to build its business in this space through existing and new clients in 2017.

We see the RTA market update as a near-term issue, and we remain constructive with regards to SJ’s long-term growth prospects across its various product lines. We lower our revenue and EBITDA estimates, as a cautionary move, for 2016 and 2017. Overall, we expect SJ to report reasonable growth in sales and earnings in 2017 driven by the following;

- **Weak tie demand** in the back half of 2016 will likely recover in the first half of 2017

- **Utility pole business** was hit and miss in 2016 but should likely take a leading role in driving growth in 2017.

- **Consumer lumber** is now a meaningful part of the business and will continue to contribute to the overall growth in the business.

The company did a commendable job to pay down debt in Q3 2016 and get closer to its run rate target of two times debt-to-equity. In the absence of an acquisition we see a high likelihood of a dividend increase in 2017, given the strong FCF generation.
Cargojet Inc. (CJT-T). **BUY**, Target Price $55, implying 20% return.

We initiated on CJT in August 2016, highlighting that the company was ready for take-off. CJT is currently trading around $46.34, up 38% since our initiation and down 12% from the high of $52.56. We believe the recent pullback provides a good buying opportunity for four reasons.

- **Record peak season volumes.** Peak season for overnight air cargo occurs during the fourth quarter (with volumes peaking in the weeks leading up to Christmas). Disclosure by Amazon and Canada Post indicated record peak season volumes in 2016 – as an example, Canada Post expected 7 million more packages to be shipped than in 2015. CJT confirmed that it was anticipating “record peak season volumes” in a press release on December 7th. Management cautioned that strong peak season volumes through the end of December may have been partially offset by increased operating costs from challenging weather. We expect record peak season volumes to translate into strong Q4 2016 financial results (expected in early-March) that will be a positive catalyst for the shares.

- **Growing Aircraft, Crew, Maintenance and Insurance (ACMI) business.** CJT operates approximately 22 aircraft in its overnight air cargo network. Aircraft downtime during the day and on weekends provides an opportunity for CJT to generate additional revenue. CJT has gradually been building its relationship with Air Canada Cargo and other airlines to increase its ACMI business that generates high margins. We expect growth in the ACMI business in 2016 to translate into growing EBITDA margins.

- **Strong free cash flow generation used to pay down debt.** CJT enjoys strong free cash flow with its cost pass-through model providing a natural hedge against rising costs (fuel and other variable costs). We estimate that CJT will generate a free cash flow yield of 11% in 2017. This will be used to pay down debt and could potentially lead to an additional dividend increase.

- **Potential growth in market share.** CJT currently has an estimated 90% market share of the Canadian overnight air cargo market. The remaining 10% market share in the time-sensitive overnight air cargo market is controlled by Edmonton-based Morningstar Air Express Inc. that operates a dedicated network for Federal Express Canada. We see the potential for CJT to win this contract when it comes up for renewal in 2019. This is due to the significant cost advantages of CJT's co-load network over Morningstar's dedicated network.

While we see the Q4 2016 results as providing a strong tailwind for CJT in early-2017, we highlight that seasonal weakness around the Q1 2017 results (expected in early-May) may result in a trading opportunity.
MTY Food Group Inc. (MTY-T). BUY, Target Price $56, implying 12% return.

We initiated on MTY in December 2016. At the time, we were impressed by MTY’s business model and the growth of the business from one brand with a handful of locations in the early-1980s to more than 55 brands and 5,723 locations in 2016. We remain positive on the name for three reasons.

- **Acquisitions should lead growth.** MTY acquired Kahala Brands in July 2016 and Baja Fresh Mexican Grill in October 2016. We see these two brands providing strong growth and diversification away from the Canadian market that has seen a slowdown in same-store sales.

- **Improving Canadian outlook.** The Western Canadian market has been impacted by a commodity-related slowdown in same-store sales. We see the Canadian outlook improving through 2017.

- **Potential acquisitions.** While we expect MTY to slow the pace of acquisitions as the company pays down debt from the Kahala Brands and Baja Fresh Mexican Grill acquisitions, we see significant room for small tuck-in acquisitions in 2017. We highlight that small acquisitions can have a material impact over the long-term. For example, Thai Express was acquired for $300,000 in 2004 and has grown to be MTY’s third-largest brand by system sales in 2016.

- **Dividend increase given low payout ratio.** MTY’s normalized payout ratio has averaged less than 30% since 2013, providing internally funded capital for growth and financial flexibility to increase the dividend. We continue to expect MTY to increase its dividend by at least $0.015/share in early-2017 based on annual dividend increases for the last five years.”

A reminder that MTY was a Capital Ideas Research cover story on May 30. The stock is up nearly 15% since then.
Bricks and mortar businesses are getting badly beaten on the stock market again, as online retailers continue to shake up the shopping industry.

As Barron's notes in a recent article, stocks such as Macy's (M-N) and the popular SPDR S&P Retail exchange-traded fund (XRT-N) are showing "the wear and tear," according to Michael Kahn, a columnist on technical analysis trends.

"After a market-beating performance right after the election and a rather significant technical breakout soon after, XTR peaked in December," he says. "The ensuing sharp decline negated the breakout in no uncertain terms."

But not all bricks and mortar retailers are doing badly. Mr. Kahn points to big-box retailer Costco (COST-Q), which "broke out to the upside in a big way Thursday from a two-week pullback and looks to be on a path to reach the top of a year and a half trading range."

Stocks that are well outperforming are the online retailers, such as Amazon (AMZN-Q) and Alibaba (BABA-N) and Canada's Shopify (SHOP-N).

"While it is true that Amazon and other big momentum stocks limped into the new year, they were coming off spectacular runs," Mr. Hahn says. "And now, Alibaba's chart in particular looks quite nice from a technical point of view."

The shift to online retailing is clear, the question Mr. Hahn addresses is which ones show the most promise:

"Of course, Amazon is on that list but its triple-digit price/earnings ratio may prove worrisome for some investors. Even though online is the place to be, there are surprisingly few online retail stocks with attractive charts right now aside from the aforementioned Alibaba," he says. "However, e-commerce platforms do look quite interesting."

He cites Shopify and Akamai Technologies (AKAM-Q) which are "...currently in sideways patterns near 52-week highs. That simply means they were strong and are now resting with technicals that lean bullish."

Still, he says speculators may not want to rule out Macy's entirely.

"Even though it got clobbered Thursday, it has landed on support from last year in what might be a selling climax," he says.
Telus Corp. (T-T) is Canaccord Genuity’s top telecom pick for 2017.

Analyst Aravinda Galappatthige also upgraded the stock to “buy” from “hold” and target to $47 from $45. Consensus is $44.47. The stock is currently trading around $43.95.

Telus is the “favourite” due to its “wireless heavy asset mix,” which the analyst said, “ensures it benefits from stronger fundamentals in the space.”

He also cited the company’s western Canada exposure, which “could facilitate some year-over-year strength as Alberta rebounds.”

He also noted Telus boasts the strongest dividend growth rate in the sector at 10%, compared to 5% at BCE.

Among 20 analysts that cover Telus, seven have a “buy” 12 a “hold” and one a “sell.”

Raymond James analyst Steve Hansen is bullish on Canadian railroads.

“We continue to believe key elements of our ‘bulk pendulum’ traffic thesis portend the return of healthy top-line growth for both Canadian railroads in 2017,” Mr. Hansen said in a note.

“Not everything went to plan in [the fourth quarter of 2016]; however, pleasant upside surprises emerged with respect to iron ore, met coal, and frac sand (used in hydraulic fracturing).

Taken together, after more than a year of steep volume declines, we believe the return of volume growth will bring with it demonstrable benefits (i.e. operating leverage),” he added.

“While still difficult to handicap, we also raise the prospect of additional tailwinds, including: (1) pension expense relief in tandem with higher interest rates; and (2) lower tax-rates under the newly elected U.S. administration.”

Mr. Hansen increased his target price on Canadian National Railway Co. (CNR-T, CNI-N) to $104 (Canadian) from $94 and increased his recommendation to “outperform.” The stock is currently trading around $91.70. Consensus is $86.53.

On Canadian Pacific Railway Ltd. (CP-N; CP-T) he maintained his “outperform” and $230 target. The stock is currently trading around $198. Consensus is $218.

“Looking forward, while CN and CP both stand to benefit from the positive macro backdrop ... we are increasingly mindful of CP’s widening discount/valuation gap vs. CN, the broader Class 1 peer group, and even the S&P 500 Index, therefore presenting an increasingly attractive entry point for long-term investors, in our view,” he said in a note.

Among 22 analysts that cover CN, four have a “buy,” 17 a “hold” and one a “sell.”

Among 22 analysts that cover CP, 15 have a “buy,” five a “hold,” and one “sell.”
CIBC World Markets increased its target on Encana Corp. (ECA-T, ECA-N) to $14 (U.S.) from $12 after the energy company said it expects to exceed production and profit-margin forecasts in 2017. Consensus is $13.81. The stock is currently trading around $12.95.

"Following the announcement that Encana expects year-over-year core four growth in [the fourth quarter of 2017] to be about 20% and the corporate netback to be about $10 per barrel of oil equivalent (boe) assuming $55 (U.S.) per barrel and $3 (U.S.) per thousand cubic feet of natural gas (Mcf), we have revised our estimates to incorporate our 'best guess' as to what 2017 will look like (guidance will be formally provided on Feb. 16),” CIBC analysts said in a note.

They maintained their “neutral” rating on the stock. Among 26 analysts that cover Encana, 14 have a “buy,” eight a “hold” and four a “sell.”

Beacon Securities increase its target on Celestica Inc. (CLS – T, CLS – N) to $15.50 (U.S.) from $13.50 and reiterated its “buy” rating. The stock is currently trading around $12.20 in New York. Consensus is $12.09.

Analyst Gabriel Leung cited “a peer group multiple expansion,” for the increase.

“Looking into 2017, we anticipate another slow growth year with potential upside coming from Celestica’s ability to win faster growing programs, along with continued cost optimization initiatives in its solar and semiconductor businesses, which were margin drags in 2016,” he said in a note.

Among 11 analysts that cover the stock, three have a “buy,” seven a “hold” and one a “sell.”

Raymond James increased its target price for Penn West Petroleum Ltd. (PWT-T, PWE-N) to $3 (Canadian) from $2.75. Consensus is $2.57. The stock is trading around $2.70 in Toronto.

The company recently increased its capital budget and made changes to its senior management team.

“While the information in the release was broadly encouraging, with indications that PWT will reach its $100 to $200-million range in divestments early in Jan-2017, details were lacking and we will look to the year-end reserve report and [fourth quarter of 2016] results for more information,” analyst Jeremy McCrea said in a note.

“Nonetheless, we are sufficiently confident that the transactions will conclude to model "as if" they have. As a result, we are meaningfully lowering our 2017-production in-line with PWT’s guidance. The impact on cash flow is less pronounced as we suspect that much of these assets were near cash flow neutral. Looking forward, we expect strong well results out of the Cardium in late 2016 should set Penn West up well for 2017.”

The analysts kept their "outperform" rating on the stock. Desjardins Capital Markets kept its "hold" rating on Penn West and its target price of $2.75. RBC Dominion Securities maintained its "sector perform" and raised its price target to $2.75 from $2.50.

Among 14 analysts that cover Penn West, four have a "buy," seven a "hold" and three a "sell."
Other analyst Actions

**Open Text Corp. (OTEX-Q; OTC-T)** is an "outperformer" at CIBC World Markets. Analysts increased their price target to $78 (U.S.) from $69. Consensus is $73.58.

**AltaGas Ltd. (ALA-T)** was raised to "outperformer" from "neutral" by CIBC World Markets. Analyst Robert Catellier boosted his price target to $37 from $35. Consensus is $35.65.

**Bellatrix Exploration Ltd. (BXE-T)** is an "outperformer" at AltaCorp Capital Research. AltaCorp also boosted its target to $1.75 from $1.50. Consensus is $1.44.

**Boralex Inc. (BLX-T)** is an "outperformer" at Raymond James. Analyst David Quezada increased his target price to $24.50 from $23.25. Consensus is $23.30.

**CRH Medical Corp. (CRH-T)** is a “buy” at Acumen Capital. Analyst Brian Pow increased his target to $8.40 from $7.50. Consensus is $8.54.

**Crown Capital Inc. (CRN-T)** is a “buy” at Canaccord Genuity. Analyst Scott Chan raised his target price to $12 from $11.25. Consensus is $11.32.

**The Descartes Systems Group Inc. (DSGX-N, DSG-T)** was upgraded to “buy” from “hold” at Haywood Securities. Analyst Pardeep Sangha increased his target to $24.50 from $24.

**Kelt Exploration Ltd. (KEL-T)** was upgraded to "strong buy" from "outperform" at RaymoJames. Analyst Jeremy McCrea raised his target price to $10 from $9. Consensus is $7.67.

**Western Digital (WDC-Q)** was upgraded to "outperform" from "market perform" at BMO Capital Markets. The target was raised to $90 from $66.

**Methanex (MX-T)** is an “outperformer” at BMO Capital Markets. Analysts increased their target on the stock to $53 (U.S.) from $47. Raymond James downgraded Methanex to "market perform" from "outperform" and maintained its $48 (U.S.) price target. Consensus is $47.

**Tahoe Resources Inc. (THO-T)** is a “buy” at Canaccord Genuity but analysts lowered their target to $20 from $22. Consensus is $21.41.

**Walt Disney Co. (DIS-N)** to "buy" from hold by Evercore, which also raised its price target on the stock to $120 (U.S.) from $103. RBC upgraded the stock to "outperform" from "sector perform." Consensus is $107.88.

**Whitecap Resources Inc. (WCP-T)** is a “buy” at Canaccord Genuity. Analysts increased their target to $14.50 (Canadian) from $13. Consensus is $14.47.

**Pason Systems Inc. (PSI-T)** is an “underperformer” but analysts bumped their price target to $16.50 from $15. Consensus is $18.79.

**Knight Therapeutics (GUD-T)** was downgraded to “hold” from buy by Mackie Research analyst Andre Uddine. He lowered his target to $10.75 from $12. Consensus is $10.69.
After putting in a final low at the beginning of December, **Uranium Participation** (U-T) (which tracks the price of uranium) made a powerful surge off the bottom and broke out above its downward sloping 50-day moving average. Since then, the stock has spent the last month consolidating within a bull flag pattern. This week, the price action broke out from that pattern with all indicators turning positive. A move above the 200-day moving average would be extremely bullish for all the uranium stocks.
After bottoming in early November, **NexGen Energy** (NXE-T) has spent the last two months rapidly trending higher within a series of bull flag continuation patterns. This week, NexGen Energy is breaking out to new six month highs with all indicators showing extreme strength.
Denison Mines (DML-T) is breaking out of a bull flag continuation pattern to new eight month highs on increased volume. Momentum (MACD) continues to accelerate while the RSI(14) trends within its bull market range of 40-90. With Relative Strength vs. the S&P 500 (the green indicator at the top of the chart) breaking out to new highs, this move appears to be very bullish and should continue to attract new money.