Weed and Renewables: A Powerful TSX Stock Tag Team

Description

Investment is arguably the art of placing bets on the future – and what could encapsulate the future of the **TSX Index** more succinctly than legal marijuana and green energy?

Below is an intriguing pairing, chosen for the new investor, or for old hands looking to branch out into Canada's most interesting "green" industries.

TransAlta Renewables (TSX:RNW)

If you're going to pick a renewable energy stock, it might as well be one that outperforms the sector. TransAlta Renewables managed to do just that in the past year, returning 13.1% compared to the Canadian renewable energy industry average of 7.3%.

The main reason to buy this particular stock, though, is its sizeable dividend yield of 6.92%, which rounds out the high growth (and promise of capital gains) by the following marijuana stock with some passive income.

Though it's been a good year for TransAlta Renewables in terms of earnings, its outlook is slightly negative – and here's where investing in a pot stock alongside it comes in.

Aside from that, this green energy star has a reduced level of debt and good all-round valuation, as seen in its P/E of 14.8 times earnings and near-market P/B of 1.5 times book, making for a stable choice beyond the usual parade of oil and gas tickers.

HEXO (TSX:HEXO)

Another rollercoaster week for this favourite of the Canadian weed stocks, HEXO has seen its share price leap 4.63% so far today, while being generally negative by a whopping 7.66% over the last five days. This should come as no great surprise: HEXO’s beta of 4.91 relative to the market signifies a highly volatile share price.

Returns of 72% for the past 12 months have beaten the Canadian pharma industry, with which the marijuana sector aligns to some degree, and provide some justification for holding these kinds of stocks.

However, as tempting as those capital gains may be, that volatility should be shored up by a defensive side-investment (such as TransAlta Renewables).

Selling at more than four times its book value, HEXO is not what you’d call a cheap stock; however, it’s a healthy option, as it carries no debt, and thus the risk to a stockholder is reduced. It is in a lot of ways a nearly perfect accompaniment to the previous stock, with the two making up for each other’s shortcomings.

The main reason to hold back on this particular stock investment, though, may be the fact that HEXO insiders have sold considerably more shares than they have bought in the past three months.

This might be a worry for investors who like to pay attention to insider sentiment, and may warrant a bit of homework on the part of the would-be shareholder.

The bottom line

TransAlta Renewables makes a stable investment alongside some of the better weed stocks; stacking shares in HEXO could be a suitable pairing for any alternative energy investor bullish on legal marijuana.

Indeed, with a projected 63% annual growth in earnings, HEXO is looking like an early front-runner in the cannabis race, with solid year-on-year returns casting that expected growth in an encouraging light.

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1. Cannabis Stocks
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1. rnw

TICKERS GLOBAL

1. TSX:HEXO (HEXO Corp.)
2. TSX:RNW (TransAlta Renewables)

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