



This 1 Unknown Canadian Growth Stock Just Popped 63%

Description

Water. It's the number one commodity that human life can't do without. For the super-long-term investor, water should be as important as gold in a portfolio. Throw in renewable energy production, some key miners, and certain tech stocks, and investors have a future-proof portfolio. But water investing has few truly compelling stocks. Here's why **H2O Innovation** ([TSXV:HEO](#)) could be a strong pick.

A mix of growth and defensive qualities

Up 5% Wednesday to sit on a five-day jump of 15%, H2O Innovation is a rare momentum stock that has come out of nowhere with a consensus "strong buy" rating. This stock has rocketed 63% in four weeks, taking growth investors by surprise. And it could go higher. Selling at \$1.87 a share, this cheap stock has a median consensus target of \$2.12 a share, and a high target of \$2.50. That could mean optimistic upside of 33%.

Diversification should be the cornerstone of every stock portfolio. That doesn't mean willy-nilly buying bits and pieces from every corner of the TSX. Instead it means balancing a portfolio across high-performance and low-risk asset types. It also means buying quality stocks that are themselves diversified, whether across business operations or international markets.

H2O Innovation brings both types of diversification to the table. Yes, its membrane tech angle looks pretty niche at a glance. But consider how applicable such technology is. This one stock covers drinking water, industrial water processes, water reuse, and wastewater. If it's diversification your portfolio's lacking, H2O Innovation offers it, from desalination to oil and gas to food and drink to infrastructure.

A diversified stock with growth potential

Now, let's talk about growth. Earnings could multiply in the 200% range, potentially making H2O Innovation a [classic growth stock](#). Investors can play this stock in one of two ways. Either they can buy

now and ride that upward momentum, theoretically to the estimated \$2.50 mark. Alternatively, investors can wait for a pullback.

Value investors may want to take the latter tack. Valuation can be read in two key ratios: price to earnings (P/E) and price to book (P/B). Given the nature of the current market, investors should perhaps look past the P/E ratio and focus instead on a P/B of twice book. That's not too bad as far as growth stocks are concerned. Still, for the value-focused portfolio builder, better value might be had once early momentum abates.

The issue here, though, is that H2O Innovation could keep climbing, making now an opportune time to climb aboard. The thesis for this stock is strong, and that momentum could defy the type of pandemic selloff that has been already proven so dangerous to tech stock growth. Indeed, H2O Innovation belongs to that asset type best described as the [green economy](#).

It is certainly the rare stock that can combine so many signifiers of quality and growth potential. Given the challenges presented by the climate crisis, water treatment is likely to be one of the primary drivers of policy this century. That thesis alone makes H2O Innovation a stock to place on a wish list.

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