Forget Tesla: How to Play EV Stock Momentum and Collect a 5.8% Yield

Description

The meteoric rise of **Tesla** (NASDAQ:TSLA) over the past year fuelled a wave of investor interest in EV stocks.

The EV sector is full of newcomers hoping to deliver the same success Tesla achieved. Some will grow to become very successful companies; others will fail and disappoint investors.

Betting on start-ups can result in huge gains if you get the timing right and choose the eventual winners. Unfortunately, nobody knows which stocks will be the next Tesla. In fact, Tesla CEO Elon Musk even said last December his company was about a month from filing for bankruptcy during a tough period between 2017 and 2019. Today, Tesla has a market capitalization of roughly US$775 billion.

How can investors play the EV momentum without taking on so much risk?

One option is to find stocks of companies that invest in EV businesses, but their positions represent a small part of the overall capital allocation.

In the ideal scenario, you get protection against the bet going bad while being positioned to reap the rewards if the investment succeeds and becomes the next Tesla in its EV sector.

Let's take a look at **Power Corp** (TSX:POW) to see how it might fit the description.

Why Power Corp stock is a good way to bet on the EV sector

Power Corp is best known as a holding company with interests in insurance and wealth management businesses. The assets generate strong cash flow and profits. Power Corp shareholders receive a generous dividend that is safe and currently provides a 5.8% yield.

Power Corp also invests in new technologies and promising start-ups. On the financial services side, Power Corp and its subsidiaries own a controlling stake in Wealthsimple. The fintech firm's implied valuation is $1.5 billion after the latest round of fundraising.

Another Power Corp investment targets the EV market. Power Sustainable Capital has a large position in The Lion Electric Company, a Canadian maker of electric school buses and commercial vehicles.

In November, The Lion Electric Company announced plans to combine with **Northern Genesis Acquisition Corp**. Northern Genesis is a publicly traded special purposes acquisition company (SPAC).

Once the transaction closes, Lion Electric expects to list as NYSE:LEV. The implied market capitalization for Lion Electric under the deal is US$1.9 billion. Power Sustainable held a 44.2% interest in Lion Electric heading into the agreement. Once the smoke settles on the deal, Power Sustainable will hold 31.4% of Lion Electric.

The result is a $737 million boost to Power Corp's net asset value. That's about $1.09 per share or 2.7%, according to the press release.

The bottom line

Investors who like the idea of betting on fintech or EV startups, but don't want to take on too much risk can own Power Corp stock and get paid well while waiting to see if the new companies turn into home runs.

In the event Lion Electric grows to become the dominant player in the United States and Canada for electric school buses, the valuation could skyrocket and result in a huge payday. If not, investors have limited downside risk.

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