Should Dividend Investors Dump Fortis Inc. and Enbridge Inc. for Hydro One Limited?

Description

If you're looking for strong, stable dividends, utilities are generally a great place to start. After all, electricity is a product we all need, so demand won't wane even when the economy is struggling. Better yet, utilities tend to operate in regulated markets, which means that pricing is not volatile. It's an ideal scenario for paying out a steady dividend.

And soon enough, there will be a new utility stock on the market: Hydro One Limited. So, should investors dump utilities like **Fortis Inc.** (TSX:FTS) or **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) for this issue?

Hydro One: the basics

Hydro One has all the characteristics that a dividend investor should be looking for.

The company owns 96% of Ontario's transmission network, and owns the largest distribution business in the province. Rates are heavily regulated and are based on a cost-of-service model, ensuring that profitability is very smooth. Better yet, the outlook for capital expenditures is very clear, with no plans for major new transmission projects. And employees have recently signed a new collective agreement, which provides certainty on labour costs.

Normally for such a stable company, investors would get a very low yield. But Hydro One investors should get a yield anywhere from 4% to 4.4%, depending on the final IPO price.

This high yield doesn't come from paying an unsustainable dividend. Hydro One is targeting a payout ratio of just 70-80% of net income, meaning there should be room for more dividend increases down the line. It's a very compelling option for any income-oriented investor.

It's better than Fortis and Enbridge…

Fortis and Enbridge are both very popular dividend stocks, and for good reason. Like Hydro One, they generate very steady revenue, which is perfect for dividends. In fact, Fortis has raised its payout every year for over four decades running. That's the longest streak of any public Canadian company.

But there are some downsides. Enbridge's stock only yields 3.3%, even though the company has a very high payout ratio. To illustrate, the company expects to make $2.00-2.35 in adjusted earnings per share, yet its annualized dividend totals $1.88. That's a payout ratio of up to 94%.

The story is similar with Fortis. Its dividend yields just under 4%, even though the company paid out over 90% of earnings last year.

…and certainly better than bonds

According to the latest data, a 10-year government bond yields a paltry 1.43%. With interest rates that low, it's surprising that so many people still invest in bonds.

If you are one of them, you should consider Hydro One stock instead. The dividend payments will be rock-solid, and the stock shouldn't be very volatile either. You'll just have to wait for the shares to be released.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. TSX:ENB (Enbridge Inc.)
3. TSX:FTS (Fortis Inc.)

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