Hydro One Ltd. Is Raising Billions for Growth

Description

Despite operating a $14 billion business that runs one of the largest electric transmission networks in North America, **Hydro One Ltd.** (TSX:H) doesn't get a lot of coverage. In the past month, an average of only $7.6 million worth of shares were traded per day.

For comparison, competitor **Emera Inc.** (with a market cap of only $6.5 billion) has nearly $27 million worth of shares traded per day. Little coverage hasn't stopped Hydro One's management team from raising billions in new financing this year.

Is Hydro One gearing up for a massive growth phase?

Billions of new capital in just a few months

Hydro One doesn't need much additional capital to keep its existing business going. Last year profits were $713 million, equating to $1.39 a share. At the close of the year, the company also had over $2.5 billion in undrawn credit facilities.

Its strong liquidity position is what makes some recent actions interesting. In February, Hydro One sold $1.35 billion in notes at incredibly attractive interest rates ranging from 1.8% to 3.9% annually. The notes expire anywhere between 2021 and 2046, giving the company a nice bump in long-term financing. Then on April 5, the company sold $1.71 billion in stock at $23.65 per share. Underwriter options will likely bring this total to $1.97 billion.

With an A credit rating from both S&P and **Moody's**, debt reduction doesn't have to be a top priority. What's Hydro One planning to do with this fresh capital?

Expanding a reliable business

Hydro One’s current business is 99% fully regulated. This provides one of the most stable and predictable cash flow streams in the entire stock market. Growth is also fairly predictable as regulations include rate-based additions and pre-approved price increases. Terms also allow the company to pass on fluctuations in the cost of electricity directly to consumers.

Even with such an attractive business model, management is finding plenty of avenues for growth. In 2015, $1.5 billion in new assets were put into service with $607 million coming in the fourth quarter alone. The company plans to spend $1.6 billion per year over the next five years with a focus on improving existing assets (see project schedule below).

Management has also found room to expand via complementary acquisitions. Last year it bought Great Lakes Power Transmission for $222 million cash plus $151 million of assumed debt. The deal added 560 kilometers of high voltage transmission lines, allowing Hydro One to boost its coverage in Ontario to 98% of the provinces energy demand.

COMPANY NAME
Address | Phone | Link | Email

Image Source: Hydro One Investor Presentation

Image not found or type unknown

Image Source: Hydro One Investor Presentation

Dividends will grow

Hydro One’s $0.84 per share annualized dividend equates to a 3.6% yield. Not bad, but growing the bottom line should help increase the dividend given that management targets a payout ratio between 70% and 80% of net income. Growing profits should result in growing dividends for years to come.

Hydro One looks like a great long-term pick for growth and income investors alike.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:H (Hydro One Limited)

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Tags

1. Editor's Choice

Date
2025/08/26
Date Created
2016/04/07
Author
rvanzo