Hydro One Ltd. Sticks by its Growing Dividend

Description

This week, **Hydro One Ltd.** (TSX:H), the largest electrical transmission and distribution utility in Ontario, reaffirmed its $0.21 per share quarterly dividend. Today, that results in a 3.6% yield. While that doesn't seem like the most attractive option for income investors, there's reason to believe it's not only incredibly safe, but has room to grow over the coming years.

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A reliable utility

Utilities are typically one of the more popular options for income investors. Not only is energy demand fairly stable, but rates are often regulated, meaning that the provider can get guaranteed, predictable returns on nearly every project. As one of the biggest utilities in North America, Hydro One is no different.

The company's overall 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.

Plenty of growth left

While utilities typically come with generous and reliable dividends, they aren't usually characterized by high-growth opportunities. Instead, investors rely on slow, but consistent dividend raises. Hydro One is the rare utility that can please dividend seekers and also grow its payout at rates above the market average.

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?

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.

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 province's energy demand.

Management is targeting a reasonable 70-80% dividend-payout ratio, so as the company expands its earning base, expect its dividend to grow commensurately. With its large backlog of projects, shareholders should have years of dividend increases to go.

CATEGORY

1. Energy Stocks
2. Investing

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1. TSX:H (Hydro One Limited)

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