



Hydro One Ltd.: Get Your Growing Dividend Today

Description

Hydro One Ltd. ([TSX:H](#)) is one of the least-discussed companies on the TSX. Despite having a \$15 billion market cap, a business that is 99% regulated, and a growing 3.3% dividend, only one million shares trade per day. Utility competitor **Emera Inc.** has about the same value of shares traded per day despite a market cap of about half of Hydro One's size.

Why is the market ignoring such a safe stock with a growing dividend?

One of the major reasons is that the company was until recently government owned. In June 2015 the Ontario government unveiled a plan to privatize Hydro One, making it one of the largest privatizations of all time in Canada. On November 5, 15% of the company's shares were sold to the public with plans to privatize the rest in the coming years.

So, even though the company is one of the biggest utilities in North America, only a small portion of shares currently trade on the market. That portion just got a bit bigger.

Government selling creates opportunity

This week the Ontario government reached an agreement with the First Nations to loan them up to \$268 million to buy about 15 million shares of Hydro One at \$18 per share. Seeing as shares currently trade around \$25, the Ontario government is getting a bad deal. Still, the move should free up another big chunk of shares that will now be privately traded.

A bigger market presence should help Hydro One continue to raise capital to afford its hefty spending plans. 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.

Prepare for long-term dividend growth

Hydro One's \$0.84 per share annualized dividend equates to a 3.3% yield. That's 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

TICKERS GLOBAL

1. TSX:H (Hydro One Limited)

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