Hydro One Ltd.: If You Can't Beat Them, Join Them

Description

The price of electricity in Ontario is rising eight times faster than overall inflation, forcing businesses and consumers alike to contemplate moving to other parts of the country where hydro prices are rising at a more reasonable pace.

But before you sell your house and move to Moncton or Winnipeg or even Miami, where hydro prices are lower, you might want to consider getting some payback by investing in **Hydro One Ltd.** (TSX:H), the people who charge you these ghastly prices.

After all, if you can't beat them, perhaps you should join them.

According to data from Hydro Quebec, a customer in Winnipeg who consumes 1,000 kWh per month pays $113 for that electricity on a monthly basis compared to $199 per month and $207 per month in Toronto and Ottawa, respectively.

On an annual basis, the Ottawa customer is paying an additional $1,128 for the privilege of keeping their house or business lit. Paying 83% more each year for the same basic necessity than the consumer who lives one province to the west seems harsh indeed.

But, if you invest in Hydro One stock within your TFSA, you'll pay no tax on its 21 cent quarterly dividend. At a July 25 closing price of $25.96, it's currently yielding 3.2%, which is 32 basis points better than what you'd get from the **iShares S&P/TSX Capped Composite Index Fund** (TSX:XIC).

So, for the Ottawa hydro customer to get back 100% of the $1,128 difference, you'd have to buy approximately $34,887 in Hydro One stock to generate the same amount of dividend income. If Hydro One stock were to also appreciate by 3% annually over the next 10 years, you'd generate enough tax-free capital gains to recover double the $1,128 difference.

It's a pretty nice solution, if—and that's a big if—you think Hydro One is a good stock to own.

After all, you could take the same approach with the XIC and come out ahead on the capital-appreciation side of the ledger. However, there's no guarantee that the XIC will continue to go up—it's had negative returns in three of the last 10 years—while the quarterly dividend paid out by Hydro One will more than likely increase as it generates additional cash flow from the $8 billion it plans to spend over the next five years, improving its existing infrastructure assets.

Operating within a regulated business environment, it's likely that investors can expect dividend increases of 5-10% annually over the next few years, meaning today's 84 cents could be as much as $1.35 in five years—a yield of 5.2%.

As they say, when you have lemons, make lemonade.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:H (Hydro One Limited)

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