Get Big Renewable Energy Dividends With Hydro One Ltd.

Description

Renewable energies aren't typically associated with consistent and reliable profits. **Hydro One Ltd.** (TSX:H) bucks the trend.

In 2015 the Ontario government privatized Hydro One. It was one of the largest privatizations of all time in Canada. With the move, the public was finally able to buy shares in a clean energy public utility that has 99% of its revenues regulated.

A safe bet in any market

Hydro One has no exposure to electricity-price risk as rate increases are completely passed on to customers. In contrast to many utilities, the company never has to worry about its input costs going up–a huge contributor to Hydro One's reliable profits and dividends.

For example, from 2011 to 2015 the Ontario government allowed the company to earn a return on equity of around 9%. Actual results on a consolidated basis came in around 10%.

High profitability rates have allowed it to implement an impressive dividend, especially considering that Hydro One's path to growth has just begun.

The stock's $0.84 per share annualized dividend currently equates to a 3.2% yield. That's not bad, but plans to grow the bottom line should help increase the dividend. Management targets a payout ratio between 70% and 80% of net income, so growing profits should result in growing dividends for years to come.

The dividend will grow for years

As mentioned, 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.

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.

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 appears to be readying itself for another big move.

In February, Hydro One sold $1.35 billion in notes at incredibly attractive interest rates ranging from 1.8% to 3.9% annually. 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.

The new financing combined with its billions in undrawn credit facilities will almost certainly be used to grow profits at a faster rate than the market believes is possible.

Through 2019 the company expects its rate base to grow by 4.2% a year, while capital expenditures will fall nearly every year. Don't be surprised if Hydro One beats that target, bumping its reliable dividend along the way.

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