



Hydro One Ltd.: Buy the Dip?

Description

Hydro One Ltd. ([TSX:H](#)) is a terrific electricity transmission and distribution company that has sold off big time in the last few months. The company offers an attractive dividend yield of 3.6% and could be a terrific substitute for bonds, which have been getting crushed with rising interest rates south of the border. It's been over a year since Hydro One's IPO, and the stock has flown under the radar of most income investors. If you're looking to add some utilities to your portfolio, is Hydro One the one?

Hydro One basically has a monopoly over Ontario's transmission network and has grown steadily over the past few years thanks to the lack of competition. Hydro One is expected to grow by 4% annually for the next five years, and fat dividend raises are likely for investors who hang on to the stock.

Hydro One's transmission and distribution segments are highly regulated, so investors can expect their dividend payout to be safe, even in the toughest of times. There's almost no competition out there since Hydro One controls over 96% of Ontario's transmission network. Because of this, future earnings can be predicted, and investors can feel safe collecting the growing dividend. The management team is targeting a payout policy of between 70% and 80% of its earnings, which is a very sustainable target.

Electricity consumption is expected to increase over the next few years, especially as electric cars start becoming the norm. Technology is becoming a bigger part of our lives, and with that is a rise in electric usage. We can project a steady increase in revenues going forward and a steady growing yield to go with it.

Warren Buffett likes his businesses simple and predictable. It doesn't get more predictable than Hydro One. The company is boring, but the infrastructure will benefit from economies of scale thanks to the lack of competitors in its space.

What about valuation?

While I don't normally recommend buying IPOs as core holdings, I do believe Hydro One is a very strong business thanks to the monopoly that it has. The sell-off may present a fantastic buying opportunity for an income investor looking to jump in.

The stock currently trades at a 20.63 price-to-earnings multiple with a 1.5 price-to-book multiple. The dividend is at a very stable 3.6% and is expected to grow each year for the next five years.

There are very few businesses with moats as big as Hydro One out there. This is your typical Warren Buffett stock, and it's trading at very attractive valuations right now. If you're looking for safety and a high yield, then look no further than Hydro One.

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