



1 Incredible Dividend Stock That Nobody Is Talking About

Description

Hydro One Ltd. ([TSX:H](#)) is a fantastic business with a monopoly in Ontario. It has the potential to become a high-yielding dividend-growth king for many years down the road. The company was the biggest IPO of 2015, but it has flown under the radar of most income investors. I'm not a fan of IPOs either; they're quite risky because you never know what you're going to get from them. There's barely any financial data readily available, and it's usually a speculative gamble.

Usually, an investor is better off just avoiding IPOs completely. Warren Buffett isn't a fan of them either. There's just too much hype over IPOs in their first few years. Speculative traders jump into the stock early with the expectation of unrealistic returns over a short period of time. If there's an IPO, then usually the best strategy is to leave the stock alone for at least five years until the general public can better observe the financials of the company over a longer period of time.

IPOs are usually a great way to lose your shirt, but I believe Hydro One is the rare exception. Although the company has been around for less than two years, I believe the company has all the traits of a typical Warren Buffett business. It's a very predictable business which has a gigantic moat. Because of this, the dividend is one of the safest on the TSX and has the ability to grow by leaps and bounds over the long term.

The company pretty much has a monopoly over the electricity distribution for an entire province. There are over 1.3 million customers which rely on Hydro One for their electricity needs. As we enter an age where people can't stop using their digital devices, the demand for electricity will only increase.

This is one of the few opportunities in which an investor can get a company that has a virtual monopoly over a geographic region with over a million customers. The company controls more than 96% of Ontario's transmission network and hopes to increase its control even further by adding smaller transmission line networks to its already dominant portfolio.

The moat is ridiculously wide, and long-term investors in the stock can expect growing dividends that will be upped even during the harshest of economic environments.

The company still has room to improve its operational efficiency. The margins are quite low at the 10-

12% range, but I believe this can be increased through cost-cutting initiatives and re-investment. These initiatives will add to the top and bottom line and will allow the company to generate even more free cash flow that it can use to pay dividends.

It's time that income investors start seriously considering Hydro One as a core holding in their income portfolios.

The stock currently yields a bountiful 3.45%, which I believe will be increased by a generous amount each year going forward. If you're an income investor looking for dividend growth and safety, then look no further than Hydro One.

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