



## Investors Now Know What to Expect From Hydro One Ltd.

### Description

In November 2016, **Hydro One Ltd.** ([TSX:H](#)) went through the Initial Public Offering (IPO) process, and many investors were ecstatic. As investors lined up, shares opened at a price of \$21.50 and closed the first day of trading at \$21.62. The good news for investors is that the IPO was properly priced.

After more than 18 months of trading, investors have not had much excitement. With a current dividend yield close to 3.75%, shares have increased to \$23.23 as of this past Friday. The total price increase over the past 18 months is nothing more than 8%. Although most investors purchased shares for the dividends, the total return experienced by shareholders is very important. Breaking the 8% down to a compounded annual return, the number is about 5.26%.

If we add the current dividend yield to the capital appreciation, investors have received a return of approximately 9% on an annual basis. Although this is perfectly acceptable for a defensive company involved in the hydro business, the reality is that investors have not reaped the larger than expected profits they were hoping for. The frenzy at the time of IPO could not have been for a simple 9%!

After the past 18 months of trading, the fantastic news for investors is that the company now has an established track record as a publicly traded company. Investors now have a benchmark to use to analyze the performance. At the same time, the simple moving averages (SMAs) (the technical indicators) have also filled out. With the support price established around the \$22.50 mark, shareholders may be starting to give shares a good look again.

Currently, the stock price has trended down, crossing over the 10-day, 50-day, and 200-day SMAs. Barring a clear breakout to the downside, things may have lined up for a second time for investors.

With revenues that have been incredibly consistent over the past few years, the company has been successful in paying a quarterly dividend of \$0.21 per share, which accounted for 80% of profits in 2016. The dividend also accounted for only 36% of cash flow from operations for fiscal 2016.

Although the stock has held up very well since the IPO, investors have yet to see any major catalyst for shares to rise. Revenues, which have been consistent, have not increased, leading to earnings that

have moved sideways. Barring a major catalyst, the opportunity for investors to make a profit will come from the dividend, which may remain stagnant for quite some time yet. Investors who have held since the IPO may be getting impatient as the return on their capital has not been exceptional.

Although the consistency of revenues and earnings for this business is fantastic, it does not always translate to fantastic results for shareholders.

## CATEGORY

1. Dividend Stocks
2. Investing

## TICKERS GLOBAL

1. TSX:H (Hydro One Limited)

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