



This Stock Will Electrify Your TFSA

Description

It's rare that an opportunity arises to invest in a business that has monopoly status. This is what you are getting by investing in **Hydro One Ltd.** ([TSX:H](#)). Investors looking for a stock to hold in their TFSA that provides dividend growth, security, and long-term gains need look no further than Hydro One

Hydro One is the largest electricity transmission and distribution company in Ontario. The company controls roughly 25% of electricity distribution and holds 96% of transmission assets in Ontario. The fact that Hydro One owns nearly all of the transmission assets in Ontario provides it with a near-monopolistic advantage.

Two dominating business segments

Let's look at Hydro One's two business segments: transmission and distribution.

Hydro One's transmission assets engulf Ontario. The company has committed over \$1.5 billion through 2022 to improve, maintain, and acquire the remaining transmission infrastructure in Ontario. Although these figures are impressive, I don't see anything monumental occurring in this segment. Hydro One has a mere 4% of transmission infrastructure to obtain, after which it will literally own all transmission assets in Ontario.

The distribution side of Hydro One is where major growth opportunities exist. As mentioned above, Hydro One currently has a 25% market share of all electricity distribution in Ontario. Although this is impressive and dwarfs the nearest competitors' market share, it leaves plenty of room for growth and consolidation.

Currently, in Ontario there are 72 local distribution companies (LDCs). Hydro One has been consolidating LDCs for quite some time and will continue to do so in the future. The number of LDCs currently in Ontario, as well as Hydro One's sheer size and power, will provide the company with further growth opportunities going forward.

As Hydro One obtains more distribution companies, look for its market share, revenue, and dividend to grow.

Could the government throw a wrench into earnings?

Although the government has promised lower electricity rates and rebates, Hydro One isn't as affected as stakeholders may think.

Firstly, the government's rebate does not come out of Hydro One's earnings, but rather the government's portion of sales tax on customers' bills. This means Hydro One's earnings won't be affected at all by the government's rebate.

Secondly, it should be acknowledged that there is growing pressure and discontent for current electricity rates. Although the discontent is real, Hydro One's current customers really don't have anywhere else to go. Unless the government monumentally changes rates, Hydro One should be just fine.

Why Hydro One is better than a GIC in your TFSA

Essentially, all interest payments, capital gains, and dividend payments are tax-exempt once held inside a TFSA. So, what's the difference between a safe GIC and Hydro One?

The key difference between a GIC and holding Hydro One in a TFSA is that you will be making exponentially more money from Hydro One's dividend payments. Yes, a GIC is guaranteed by the Government of Canada and thus is less risky than any stock on the market, but keep in mind Hydro One's business model. Hydro One operates like a monopoly and has regulated earnings. Although investors are taking on a bit more risk than a GIC, Hydro One is definitely a better play for long-term investors.

Hydro One's current dividend yield is a respectable 3.87%, and it has been forecasted that dividend growth will be 6.5% through 2021. The current dividend yield, along with continued dividend growth will provide investors with a solid, predictable return for years to come.

Should you hold Hydro One in your TFSA?

Hydro One Ltd. offers a great dividend yield, has predictable income, is looking to grow through acquisitions, and has business segments that are synonymous with a monopoly. This is a company that I feel very comfortable recommending as a part of any investors long-term holdings in their TFSA.

Do your research, have fun, and be Foolish.

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