



Hydro One Ltd. Acquires Avista Corp. for \$6.7 Billion: Time to Buy?

Description

Hydro One Ltd. ([TSX:H](#)) has one of the most stable dividends on the TSX and a virtual monopoly in Ontario. The company has been criticized for its lack of growth prospects since it already controls over 96% of Ontario's transmission network. The management team knows the Ontario market very well.

Huge acquisition addresses lack company's lack of growth prospects

While it's good for the company to stay within its circle of competence, it can also be a concern when growth prospects are few and far between. In a surprising move to reignite growth, Hydro One made a surprising move by acquiring U.S.-based energy company Avista Corp. in an all-cash deal worth \$6.7 billion.

The Avista deal makes Hydro One one of North America's largest regulated utilities, and the issue concerning lack of growth opportunities has been put to rest once this deal closes. The Ontario government has also been a huge thorn in Hydro One's side with its "Fair Hydro Plan," which aimed to reduce electricity bills by as much as 25%. The well was dry in Ontario and the government made things even harder for Hydro One, so the company made a blockbuster deal to find a new way to increase its long-term free cash flow.

Although the deal appears expensive, Hydro One said there will be a "stable increase to earnings and free cash flow" and that it has "fully regulated utility operations." Many investors may be skeptical about the deal and its potential to provide future dividend increases, but it's important to remember that Hydro One's earnings and cash flow stream are some of the most predictable out there, so cautious income investors should feel at ease knowing that future cash flow streams are almost guaranteed.

More dividend hikes to come

The company stated that it plans to keep its dividend payout at approximately 70-80%, so long-term income investors have a lot to be happy about as Hydro One integrates Avista. Hydro One is a boring business, and cash flow streams will increase in time along with the dividend, which currently yields 3.91%.

Bottom line

If you're a cautious investor who wants income stability, then Hydro One is one of the safest bets out there. If the markets crashed tomorrow, the company would still be paying its dividend, and dividend raises would still be a possibility while other companies reduce theirs.

Shares of Hydro One are down over 13% over the past year, so it's a great time to pick up shares while they're out of favour with the general public. The Ontario segment will add a huge amount of stability to the overall business while Avista will be the company's source of long-term growth.

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