



## Could Higher Interest Rates Spoil Hydro One Ltd.'s Future Dividend-Growth Prospects?

### Description

**Hydro One Ltd.** ([TSX:H](#)) has one of the most stable, highest-quality dividends out there. If stability and predictability are what you're after, then you simply can't go wrong with the company. However, higher interest rates are a trend that will hurt the company's long-term dividend-growth potential.

In many previous pieces, I've praised Hydro One for its stable dividend, since 99% of its revenue stream is regulated, and it has a virtual monopoly in Ontario. The company appears to be a dividend-growth king in the making, and I still love the dividend for its earnings predictability, but if huge dividend raises and capital appreciation are what you're after, then you're probably going to be disappointed with Hydro One over the next few years — unless, of course, you're a retired income investor who cares more about the preservation of capital and dividend stability.

### High price for what seems to be a necessary acquisition

Hydro One recently made an expensive acquisition in Avista Corp. for \$6.7 billion with the hopes of opening doors to new growth opportunities to support future dividend raises. Although the deal is promising for future dividend growth, I'm not a huge fan of the price Hydro One paid. It seemed like the management team was backed into a corner and was forced to make a deal to obtain geographic diversification and a new growth channel.

### Interest rates a negative for Hydro One

Going forward, Hydro One is probably going to spending a tonne of cash integrating and upgrading its new U.S. assets, all while interest rates are rising, which is not good news. In general, a higher interest rate environment is bad for the utilities, especially for the ones that are making many deals to support growth.

### Bottom line

The recent Avista deal is a double-edged sword. It'll support future dividend raises, but it's a pricey deal that'll require a lot of investments over the medium term.

The stock of H currently trades at a 20.94 price-to-earnings multiple with a bountiful 3.89% yield.

Hydro One isn't a stock that you should avoid if you're a retiree who values stability and income. For this crowd, Hydro One is still a solid foundation to your income portfolio, but for everybody else, now probably isn't the best time to be a buyer.

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