



Which Is the Better Buy: Fortis Inc. or Hydro One Ltd.?

Description

Utility companies present a good place for you to invest in fairly low-risk stocks that usually offer good dividends and growth. Below, I'm going to take a look at two big names in the industry and evaluate which one presents a better buy for investors today.

Hydro One Ltd. ([TSX:H](#)) is a relatively new listing with the company being on the TSX fewer than two years, when the Ontario government decided to privatize and sell a significant portion of the company. Although consumers in Ontario might not be enamoured with the move, it presents an excellent opportunity from an investment standpoint, since the company has such a strong backing from a big and stable investor like the provincial government.

Earlier this year, Hydro One acquired Avista Corp in the U.S. for \$6.7 billion, which would extend the utility company's reach beyond Ontario and into several states south of the border. The move signifies the company's appetite for growth and desire to have operations beyond its immediate borders.

Fortis Inc. ([TSX:FTS](#))([NYSE:FTS](#)) has been on the TSX for a long time and has diverse operations that include Canada, the U.S., and a presence in the Caribbean.

Investors may be concerned that the company has exposure to the Caribbean, where we've seen a lot of hurricane activity in the past month, but this segment represented about 3% of the company's bottom line year to date, and Turks and Caicos was the only island impacted where Fortis operates. The company will likely see some increased costs and capital spending as a result of the disaster, but that, unfortunately, is a risk that many operators see in that part of the world.

Financial performance

In its most recent quarter, Fortis saw its year-over-year revenues increase by 35%. The increase in sales was primarily driven by the company's acquisition of U.S. utility company ITC Holdings Corp., which took place last year. Fortis also saw quarterly profits more than double, while earnings per share rose from \$0.38 to \$0.62. In four years, the company has seen its revenues increase by 87%, while profits have also grown by 82%.

Hydro One saw a drop in revenue of 11% in its most recent quarter, while net income declined by over 22%. In four years, the company has seen an increase in revenue of 14%, although in the past three years, sales have been flat. However, that is likely to change in the coming quarters with the inclusion of Avista's operations in the company's financials.

Current valuation

Fortis currently trades at a multiple of about 23 times its earnings and 1.4 times its book value. From an earnings standpoint, it is a little high, but given the growth the company has seen, it is not overpriced. Hydro One trades at a slightly smaller multiple of just under 21 times its earnings, while its price-to-book multiple is the same.

Which stock should you buy?

Hydro One presents good growth opportunities going forward, but Fortis has a proven track record of growth and acquisitions under its belt. Both stocks would be great additions to your portfolio, but if you have to choose just one, I would opt for Fortis, if only because Hydro One might still be a bit unproven, especially since going public.

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1. Dividend Stocks
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1. Editor's Choice

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