



## Hydro One Ltd.'s Q3 Disappoints: Should You Buy on the Dip?

### Description

**Hydro One Ltd.** ([TSX:H](#)) released its third-quarter results on Friday. The company saw earnings and revenues decline from the prior year as consumption was down for the quarter. It's a disappointing result for the utility company and resulted in the share price being down a little more than 1% on Friday. Hydro One saw a similar impact when [its previous quarterly results](#) failed to impress investors.

I'll have a deeper look into the financials to see what was behind Hydro One's disappointing quarter and if the stock could be a good buy today.

### Revenue down 11%

Total sales for the quarter totaled \$1.5 billion, which is down from \$1.7 billion a year ago. Transmission-related revenues were up 6% year over year, but it was distribution sales that dropped 17%.

Milder weather saw less consumption, which caused the drop in transmission revenues. The average monthly peak demand declined by more than 9% during the quarter.

However, as a result of the decline in consumption, Hydro One saw a 22% reduction in its purchased-power costs. This led to net revenue increasing slightly from \$836 million last year up to \$847 million this past quarter.

### Earnings per share drop on acquisition-related costs

Net income of \$219 million was down from \$233 million a year ago, as acquisition expenses related to the Avista Corp. transaction added \$18 million in costs this quarter; otherwise, profits would have been slightly up for the period.

Hydro One entered an agreement with Avista earlier this year that would allow the Ontario-based company to extend its reach into parts of the U.S. and grow its business even more.

Although this deal has been met with some criticism given that Hydro One used to be provincially owned and there are concerns that customers in Ontario may now be less of a priority for the public

company, from a shareholder perspective, it presents an excellent growth opportunity that could help increase the company's value.

### Is the current valuation too high?

Hydro One's stock trades at 21 times its earnings, which is a little higher than what **Fortis Inc.** ([TSX:FTS](#))([NYSE:FTS](#)) is valued at — a bigger and more diversified company. However, Hydro One has a lot of exciting growth opportunities, especially south of the border. This alone might justify the premium price for the stock as it might offer more potential for growth than Fortis.

### Should you buy Hydro One today?

Since being listed on the TSX two years ago, Hydro One has failed to sustain any increase in price and has yielded a return of just 4% for investors that bought the IPO.

The one advantage Hydro One has over Fortis is that it pays shareholders a slightly higher dividend of 3.9% compared to the 3.6% paid by Fortis. However, Fortis has a very long and reputable history for growing its dividend, and Hydro One has a long way to go to get to that stage.

With a strong dividend, terrific growth opportunities, and being in a fairly [recession-proof industry](#), Hydro One is a good buy for any type of investor. The share price could start to take off as the company begins to reap the rewards from the Avista acquisition.

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