



Have You Considered Hydro One Ltd. Lately?

Description

Utility investments can be some of the most intriguing and [profitable investments](#) in the market. **Hydro One Ltd.** ([TSX:H](#)) is one such utility that poses a significant amount of long-term potential for investors.

The utility stereotype

Utilities are often overlooked as investments due, in part, to their stereotype as being boring investments that lack any type of significant growth that stems from the business model that utilities adhere to.

Utilities generate most of their revenue from regulated contract agreements with the local communities that the utility serves. This, in turn, provides a steady, secure stream of revenue for the utility, but often leaves little in the way of growth apart from facility upgrades and the demand growth that comes from the organic growth of the communities that the utility serves.

How does Hydro One stack up?

For those investors not familiar with Hydro One, the company is the nearly exclusive electricity transmission and distribution company in Ontario. That nearly exclusive status effectively makes Hydro One a monopoly in Ontario, with the few remaining players in Ontario comprising more of a rounding an error than offering true competition to Hydro One.

In other words, Hydro One has a very impressive moat that should keep a steady stream of revenue to the joy of investors. The one potential downside in nearly full control of the market is that price increases are more scrutinized, and opposition to increases will be substantially more vocal, as was seen earlier this year.

Hydro One also offers investors a respectable dividend that provides a 3.87% yield, which, considering the stable revenue stream, makes the company all that more appealing to long-term investors.

In terms of results, Hydro One provided a quarterly update last week that came in lower than the previous quarter, with that difference largely attributed to the costs associated with the [acquisition](#) of

Washington-based Avista Corp., which was completed in the most recent quarter.

Profit attributed to common shareholders dropped \$14 million over the same quarter last year, coming in at \$219 million. Excluding the costs from the acquisition, Hydro One's profit shows a 2% improvement over the same quarter last year.

The impact of the acquisition was also witnessed in the gross revenue figure, which came in over 10% lower than the same period last year at \$1.52 billion. With the acquisition excluded, net revenues saw an improvement of 1.3% to \$847 million.

Seasonality also takes a toll on utilities, and in the most recent quarter, Hydro One witnessed some weakness stemming from the milder temperatures this past summer.

Is Hydro One a good investment?

Hydro One has been no stranger to controversy. The company has had to deal with customer outrage over rate hikes, and recently the Ontario Energy Board put the brakes on Hydro One's planned increases over the next two years, and even went further in criticizing the company's plans for further infrastructure development and increases to compensation packages.

In short, these issues could weigh down the stock in the short term, but they will do little to impact the long-term feasibility of income-seeking investors. If anything, the current pullback provides an opportunity for those investors to purchase into Hydro One at a discounted rate.

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Date

2025/07/28

Date Created

2017/11/16

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