

## 2 Underrated Virtual Monopolies That Could Roar Loudly in 2018

### Description

Monopolies are hard to come by, but they do exist, even in the Canadian markets. With their huge moats, such stocks should command huge premiums and be the talk of the town, but these two gems are rarely brought up during dinner conversations!

A lack of competition is never a bad thing, but monopolies stand to be punished by regulators, since monopolies have the power to exhibit anti-competitive behaviour, which is unfair for consumers who usually have nowhere else to turn.

Let's have a look at two stocks whose businesses have virtual monopolies.

#### Hydro One Ltd. ([TSX:H](#))

Hydro One is an electricity transmission and distribution company which has a virtual monopoly over Ontario's transmission network with its ~96% control. Many consumers have grown fed up with electricity prices, and regulators have stepped in to [control Hydro One's rate hikes](#). That's a huge drag on forward earnings, and there's no way around it, which is why Hydro One acquired Avista Corp. as a means to have a meaningful growth outlet outside Ontario.

The Avista Corp. acquisition recently closed, but it still needs regulatory approval, which is slated to be finalized next year. Should the deal go through, I believe investors should expect a larger magnitude of dividend hikes over the long term, which wouldn't have been possible if Hydro One stayed within the confines of Ontario.

Shares of Hydro One are currently down ~16% from all-time highs. With a 3.95% dividend yield, many income investors may find the stock to be a bargain at these levels. While growth has dried up in Ontario, it'll still serve as a stable foundation for the company as its U.S. expansion drives dividend growth.

#### Cargojet Inc. ([TSX:CJT](#))

Cargojet is a much higher-growth firm with a virtual monopoly in Canada's overnight shipping scene with its ~90% market share. The stock has a [considerable amount of momentum](#) heading into the new year, and it's expected that growth won't slow, as e-commerce growth continues to pick up across the country.

Cargojet is a small-cap stock with a mere ~\$780 million market cap, but don't be tricked! It has a wide moat in its sizable fleet of aircraft, which continues to grow. Each aircraft costs as much as US\$188 million, so it'd be difficult for a competitor to fork out the cash to get a fleet of its own to compete with the likes of Cargojet.

Shares are quite expensive at current levels, but when you consider you're getting a virtual monopoly in a red-hot growth market, I'd say it'd be a wise decision to get some skin in the game today, with the

intention of accumulating a larger position down the road.

## Bottom line

Interested in having a virtual monopoly in your portfolio? Fortunately, there's a stock for you, whether you're looking for value or growth.

If you're a value-conscious income investor, Hydro One looks like a compelling buy with its recently acquired U.S. growth outlet. And if you're a growth investor looking for next-level capital appreciation, it's hard to find a more compelling play than Cargojet, which is a growth story that's likely to accelerate over the next five years and beyond.

Stay hungry. Stay Foolish.

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2. TSX:H (Hydro One Limited)

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## Date

2025/09/09

## Date Created

2017/12/28

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