



Why Hydro One Ltd. Is up About 1%

Description

Hydro One Ltd. ([TSX:H](#)), Ontario's largest electric transmission and distribution company, is up about 1% at the open of trading today following the release of its fourth-quarter and full-year earnings results earlier this morning. Let's break down the quarterly results, the annual results, and the fundamentals of its stock to determine if we should be long-term buyers today.

Breaking down the financial results

Here's a quick breakdown of eight of the most notable statistics from Hydro One's three-month period ended December 31, 2017, compared with the same period in 2016:

Metric	Q4 2017	Q4 2016	Change
Revenues	\$1,439 million	\$1,614 million	(10.8%)
Purchased power	\$662 million	\$858 million	(22.8%)
Revenues, net of purchased power	\$777 million	\$756 million	2.8%
Adjusted net income attributable to common shareholders	\$170 million	\$128 million	32.8%
Diluted adjusted earnings per share (EPS)	\$0.28	\$0.21	33.3%
Net cash from operating activities	\$523 million	\$474 million	10.3%
Transmission: Average monthly Ontario 60-minute peak demand (megawatts)	18,946	19,415	(2.4%)

Distribution: Electricity distributed to Hydro One customers (Gigawatt hours)	6,784	6,521	4.0%
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And here's a breakdown of eight of the most notable statistics from its 12-month period ended December 31, 2017, compared with the same period in 2016:

Metric	Fiscal 2017	Fiscal 2016	Change
Revenues	\$5,990 million	\$6,552 million	(8.6%)
Purchased power	\$2,875 million	\$3,427 million	(16.1%)
Revenues, net of purchased power	\$3,115 million	\$3,125 million	(0.3%)
Adjusted net income attributable to common shareholders	\$694 million	\$721 million	(3.7%)
Adjusted EPS – diluted	\$1.16	\$1.21	(4.1%)
Net cash from operating activities	\$1,716 million	\$1,656 million	3.6%
Transmission: Average monthly Ontario 60-minute peak demand (megawatts)	19,587	20,690	(5.3%)
Distribution: Electricity distributed to Hydro One customers (Gigawatt hours)	25,876	26,289	(1.6%)

What should you do with Hydro One today?

Hydro One posted a solid fourth-quarter performance, highlighted by double-digit percentage earnings growth, so I think the positive reaction in its stock is warranted. However, I cannot help but notice that its full-year results were littered with year-over-year declines, so I would not be surprised if the rally fades. With all of this being said, I think the stock represents a good opportunity for long-term investors for two fundamental reasons.

First, it's attractively valued. Hydro One's stock currently trades at just 17.8 times fiscal 2017's adjusted EPS of \$1.16 and only 16 times the consensus analyst EPS estimate of \$1.29 for fiscal 2018, both of which are inexpensive given the low-risk nature of its business model and its strong cash flow-generating ability.

Second, it has a high and safe dividend yield with room for growth. Hydro One currently pays a quarterly dividend of \$0.22 per share, equal to \$0.88 per share annually, which gives it a lavish 4.3% yield. It's also worth noting that the company's [4.8% dividend hike](#) last May has it on track for 2018 to mark the second consecutive year in which it has raised its annual dividend payment, and I think it

could continue to grow its dividend at a steady rate over the next several years.

With all of the information provided above in mind, I think Hydro One is a solid long-term buy today, but I must add [that I prefer](#) **Fortis Inc.** ([TSX:FTS](#))([NYSE:FTS](#)) at current levels.

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