



Hydro One Ltd. Just Reported Better-Than-Expected Results and Is Trading 8% Lower Since January: Time to Add?

Description

While I've talked a lot about the fact that I believe that stocks are, in many cases, overvalued, the flip side to this is the fact that things are going well in the economy, and we have many [companies doing better than expected](#) as a reflection of this.

It has been a great time to be in the market.

Going forward, investors will need to be more careful in their stock selection process, however, as I believe the market will not be so generous with multiples for much longer. Investors will need to focus on stable companies that are [attractively valued](#) and that will outperform if the market is indeed on the road to becoming more risk averse.

So, for now, let's look at a company that is deserving of its multiples.

Hydro One Ltd. (TSX:H) just reported quarterly results that were better than expected, as fundamentals remain strong.

As a low-risk utility with long-term visibility, Hydro One operates two primary business units in the Ontario market: electric transmission and electric distribution.

The stock is down 8.4% since the beginning of this year, and this presents us with an opportunity to get into this steady, stable company.

Fourth-quarter earnings per share came in at \$0.29 compared to \$0.22 last year and compared to consensus of \$0.26, as the transmission segment outperformed, and the company made strides in its productivity-improvement initiatives.

Recent weakness has been due to two delays the company is waiting on.

Firstly, there's the pending Avista acquisition, which management has stated will be accretive to EPS in the mid-single-digit range, as well as dividend growth. The risk that it does not get approved is on

investors' minds, although the odds of that are low.

This acquisition of Avista, which owns regulated utility assets in Washington State, Idaho, Oregon, and Alaska, goes a long way in diversifying the company's assets, and this diversification will bring with it additional opportunities for Hydro One.

Secondly, the company is awaiting on the final decision by the Ontario Energy Board (OEB) with respect to the 2018 ROE. The rate was placed at 9%, but we are still waiting for confirmation from the OEB.

Going forward, the company estimates that it has good growth ahead from regular utility spending, such as replacement of aging infrastructure. With an annual capital expenditure of \$2 billion per year through to 2021, we will see a more than 5% rate base cumulative average growth rate during this period.

With a 4.3% dividend yield, this stock is a good core holding.

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1. Dividend Stocks
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1. TSX:H (Hydro One Limited)

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