Is Hydro One Ltd. Still a Good Investment?

Description

Utilities are typically great investments that offer handsome dividends, stable revenue streams, and generally fit the bill as great buy-and-forget investments.

Part of that criteria stems from the lucrative business model that a utility follows. Utilities are reimbursed at regulated rates stipulated in long-term contracts known as power-purchase agreements that can span upwards of two decades.

The flip side of that stable recurring revenue from a regulated contract is the perception that the utility lacks any type of growth opportunity, but this couldn't be further from the truth.

Hydro One Ltd. (TSX:H) is one such utility that investors should consider as an investment.

Hydro One has a nearly exclusive hold over electricity transmission and distribution of electricity in Ontario, much like a monopoly. I say nearly exclusive because there are several smaller players in the market, but in terms of market share, they are more of a rounding error.

That commanding market position creates an impressive moat to keep investors happy and revenue stable.

Complaints against Hydro One are increasing … again

The flip side of that argument is that as the larger the company gets, the greater visibility and scrutiny it will attract from the public, and Hydro One is rife with examples of this.

Last year, Hydro One was on the receiving end of very vocal complaints about rate-increase proposals, and more recently the issue of executive compensation has come under scrutiny by the new Ontario PC leadership.

The focus was Hydro One CEO Mayo Schmidt's pay, which topped $6.2 million last year. New PC leader Doug Ford has gone so far as to claim he will rein in compensation of Hydro One executives if he is elected. The current provincial government sold off some of Hydro One but still remains the largest shareholder in the utility.

Why should investors consider Hydro One?

There are still plenty of reasons for investors to consider making an investment in Hydro One.

First, there's the very appetizing dividend the company offers, which currently pays an impressive yield of 4.21%. For many investors looking at long-term growth or income, the dividend and stable revenue stream may be reason enough to make Hydro One a core holding.

Second, there are significant growth prospects. Last year, Hydro One announced the acquisition of Washington-based Avista Corp., which is a regulated utility that operates in the states of Alaska, Idaho, Montana, Oregon, and Washington.

The deal passed a major hurdle last week, as the multi-billion-dollar deal received antitrust clearance in the U.S. While there are still approvals required from the FCC and Committee on Foreign Investment in the United States, both companies expect that the deal will finally be closed during the second half of this year.

When that does occur, Hydro One will be much more diversified and there will be opportunities for even further growth.

Finally, Hydro One is in the midst of a massive capital-expenditure program to replace infrastructure at a cost of $2 billion per year through the next three years. This will inevitably result in long-term savings through efficiencies and improvements, which, when factored in with the added revenue from the Avista deal, should continue to provide shareholders with 5% annual growth.

In my opinion, Hydro One remains a great investment that should form part of nearly every portfolio.

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