



Ontario's Election Could Make This Lucrative Investment Even Better

Description

As Ontarians count down the days before heading to the polls, the question of what, if anything, should be done with **Hydro One Ltd.** ([TSX:H](#)) continues to attract investors, critics, and politicians alike.

When Ontario sold off its majority stake in Hydro One, the subsequent IPO created one of the most compelling investment offers on the market that offers investors a [very appetizing and stable dividend](#) that pays out a yield of 4.51%.

As crazy as it sounds, buying back a majority interest in Hydro One has now made its way into the election banter between the leading party candidates.

Why would Ontario buy back into Hydro One?

When Ontario's Liberal government launched an IPO for 13.6% of Hydro One back in 2015, it drew some interest from investors. The second offering a year later at a higher share price for 14.5% of the utility generated a much-needed \$1.7 billion for the cash-strapped government. Last year, the final offering gave Ontario a \$2.8 billion revenue windfall but brought forth other issues.

A publicly owned utility operates in a different manner from a privately owned one. This is something that ordinary Ontarians weren't accustomed to when Hydro One began applying increases to its hydro rates. The increases drew the anger and frustration of ordinary citizens, who were rightfully outraged over the sudden and severe spikes on their bills.

To make matters worse, a series of hikes to executive compensation brought that outrage a near a boiling point, which is where the current crop of party candidates looking to maximize their votes are counting on.

Buying back Hydro One would appease some everyday Ontarians, but ultimately the province has much bigger issues to address. Ontario has a staggering \$348.79 billion in debt, which, to put it another way, comes out to a little over \$25,000 per Ontarian. That's a staggering amount of debt, with interest costs alone likely coming at the expense of improving healthcare, infrastructure, and transit.

Given the dire situation that the province is in financially, adding billions to that debt won't solve the underlying main issue.

If Ontario were to buy back Hydro One, would it rein in executive compensation and reduce rates as promised?

Is Hydro One a good investment?

Hydro One currently trades at just over \$19.50, near its 52-week low. If Ontario were to buy back its interest, it would come at a cost. The NDP has speculated a re-purchase price of near \$24 per share, which, thanks to the current stock price, is near the original selling price.

That would give investors a healthy 20-25% bump in share price over current levels.

The flip side of the argument would be the status quo — the company remains as it is today, with a lucrative dividend, strong growth prospects, and a nearly complete monopoly over the transmission and generation lines throughout Ontario.

Coincidentally, Hydro One released results for the most recent quarter today, which highlighted the incredible potential the company has. Net income attributed to common shareholders surged 33% over the same quarter last year, coming in at \$222 million.

Irrespective of the outcome of the election, Hydro One, in my opinion, continues to remain an [excellent investment opportunity](#).

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dafxentiou

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