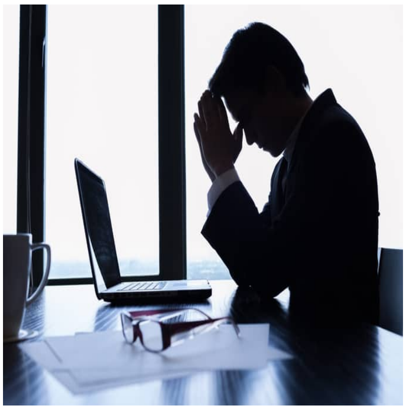

Hydro One Ltd.: Will This Dividend Stock Survive Political Onslaught?

Description

There is no other company in Canada that is so hotly debated by politicians these days than Ontario's largest electricity distribution and transmission utility, **Hydro One Ltd.** (TSX:H).

All three main political parties in Ontario, Canada's most populous province, have promised voters ahead of the June elections that they will review the company's executive packages and its performance. The province owns 47% of the utility, following Ontario's Liberal government privatization drive in 2015.

Hydro One's executive compensation has become such as big issue in the campaign that Ontario Progressive Conservative Leader Doug Ford, who has been leading in the polls, has vowed to remove the company's chief executive and the entire board if he is elected.

Beyond this political point scoring, however, its seems Hydro One is doing just fine when it comes to improving its bottom line.

Earning momentum

In the first-quarter earnings report released on May 15, the company showed that net income attributable to common shareholders rose 33% to $222 million, helped by the favourable impact of a regulatory decision on Hydro One's transmission rates as well as the positive effects of colder weather and cost control. Hydro One also boosted its quarterly dividend by 5% to $0.23 per share.

Hydro One is making progress on its $6.7 billion acquisition of northwestern U.S. energy company **Avista Corp.**, a regulated utility that operates in the states of Alaska, Idaho, Montana, Oregon, and Washington.

The deal recently has passed an antitrust clearance in the U.S., and there is a good chance that it will go through other regulatory hurdles. Both companies expect that the deal will be closed during the second half of this year.

Trading at $19.5 at the time of writing, and with an annual dividend yield of 4.3%, Hydro One is an attractive but a risky investment for dividend investors. Its stock has underperformed other similar-sized utilities in the recent sell-off and will continue to remain under pressure until this political uncertainty is over.

That said, Hydro One, with its attractive multiples and a wide moat, remains an attractive long-term buy for buy-and-hold investors. The utility serves Canada's most populous province and is on the verge of adding 700,000 U.S. clients if its deal with Avista goes through.

The bottom line

If you're not a risk taker and interested in adding a solid dividend-paying stock from the utility space, I think North America's largest pipeline operator, **Enbridge Inc.** (TSX:ENB)(NYSE:ENB), and **Fortis Inc.** (TSX:FTS)(NYSE:FTS) are better options.

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