Hydro One Ltd. Could Be a Steal at Under $20

Description

Utility stocks normally provide investors with a lot of stability and are generally seen as high-quality dividend stocks. In the case of **Hydro One Ltd.** (TSX:H), however, we're seeing a lot more risk than investors may normally expect. What's unfortunate is that it's not the company's results that are weighing down the stock; instead, external factors are proving to have a bearish impact on Hydro One.

Recently, the company has gotten the attention of Doug Ford and others vying to become the next premier of Ontario. And while he may not have the power to do what he wants directly, the Ontario government is a big shareholder of Hydro One, and that could generate a lot of instability for the stock.

The company has produced good results in its latest quarter with earnings rising 32% year over year. Hydro One also has a lot of opportunity for future growth with its acquisition of **Avista Corp.** (NYSE:AVA), although there are still hurdles for that merger to go through.

Despite all the reason for optimism, it simply hasn't translated into much bullishness for the stock. Instead, Hydro One's stock has plummeted 17% in the past year, as investors remain hesitant about whether to buy the stock or not.

Politics have kept the stock from growing

There's no question that politics have played a big factor in the stock's lack of progress. High energy prices are a hot topic in Ontario, and as long as that's the case, Hydro One will be a lightning rod for attention. There was a lot of criticism of the company when it announced it was acquiring Avista. Worries mounted that Ontario's customers would no longer be a priority, as the utility company seeks to maximize shareholder value and look for growth opportunities, as opposed to addressing issues back home.

If not for these political factors, Hydro One on its own should have seen much better results sincelisting on the TSX back in 2015. Currently, the stock trades at a multiple of just 16 times earnings and1.2 times its book value. Those are great multiples that many value investors would love to buy at.While a similar stock, **Algonquin Power & Utilities Corp.** (TSX:AQN)(NYSE:AQN), has achievedmuch more growth, it's also trading at a much higher premium with a price-to-earnings ratio of 34.

High dividend with lots of potential

In addition to strong prospects for growth, Hydro One provides investors with a great yield of 4.7%, which is higher than **Fortis Inc.** (TSX:FTS)(NYSE:FTS), which pays just 4.1%. The advantage Fortis has is that it has a strong track record of raising payouts, although, in its short history, Hydro One has already hiked its payouts a couple of times.

The company is already trying to establish a consistent growth in its dividend, and its last two increases were over 4.5% each.

Why it might be a great time to buy Hydro One

Hydro One is shaping up to be a great blue-chip stock to invest in. Ultimately, the Ontario government benefits from a strong performance by Hydro One, and that means letting the company be successful. Although it may seem like a risky stock to own today, investors that take a chance on the stock could be rewarded handsomely in the long term.

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2. NYSE:AVA (Avista Corporation)
3. NYSE:FTS (Fortis Inc.)
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