What Will Happen to Hydro One Ltd. (TSX:H) Now?

Description

With the provincial election in Ontario now over, and the Progressive Conservatives enjoying their first shot at governing in over a decade, all eyes are beginning to turn to what, if anything, will be done with **Hydro One Ltd.** (TSX:H).

Hydro One was put on the market by the outgoing Liberal administration through several IPO rounds starting back in 2015, bringing in some much-needed revenue for the cash-strapped province. What followed was Hydro One emerging as an incredible investment option, particularly for income-seeking investors, and on the corporate side of the shop, there were acquisitions, sizable growth potential, and executive compensation.

Ontario's new premier-designate hasn't been coy about his disdain of the utility — referring specifically to the rates the company charges as well as Hydro One CEO Mayo Schmidt's $6.2 million pay, even referring to him as the $6 million man. Ford went as far as to make firing the Hydro One CEO one of his key campaign promises to Ontarians.

The only problem is that Ford may not be able to uproot the CEO of a company that the government is now a minority shareholder of.

Here's a look at the options on the table and how they will impact investors.

Option 1: Buy back Hydro One

For the province to buy back a majority interest in Hydro One would be an expensive order, with a cost in the billions that will not even compare to the measly $6 million salary that Schmidt is currently earning.

A buyback would likely come at an inflated value higher than the current stock price of just over $19, with critics speculating it would be more in the $22-24 range, representing a healthy bump of over 15%, which would put the purchase near the original price of the IPO.

Under this scenario, recent investors would likely benefit from a healthy profit as a result of the bump and continue to reap the impressive dividend until the purchase goes through, which could take several quarters to finalize.

Option 2: Fire the CEO (and reduce board salaries)

There really is no way the premier-designate could go about doing this without first buying back a majority share of the company. Even then, it would be an uphill battle in boardrooms that could go on for months that could cause unnecessary turmoil in the stock, which wouldn't be good for anyone.

Responding to investor concerns on the matter last month, Schmidt noted that the province is a "shareholder, not a manager of the business."

While the premier-designate was clearly in campaign mode during his outbursts on Hydro One, the truth of the matter is that Hydro One is no longer a government-owned company and is now operating and rewarding its executives like any other major utility on the continent.

Added to that list is Hydro One's governance agreement with the province that states, among other things, that the province has to remain in its role as a shareholder and not interfere in the day-to-day running of the business, which includes its management.

Simply stated, it's in Hydro One's best interest to attract the best possible leadership, and that means paying them well whether the province likes it or not.

Option 3: Do nothing (at least nothing concrete)

This is beginning to emerge as what will likely happen for several reasons.

First, the costs of buying back (if at all possible) are nearly prohibitive considering the province is already in debt to the tune of over $345 billion. To put it another way, every Ontarian would need to shell out just over $25,000 to Queens Park to get out of debt, which will only continue to go up.

Finally, the province still maintains a 40% interest in Hydro One, which provides a mind-boggling amount of dividends to the province. That would end in a buyback scenario or, even worse, become a one-time injection if the province went the other way and sold all of its remaining holdings in the company.

Irrespective of what happens with Hydro One it will take time. Until then (and possibly beyond) investors will continue to benefit from an appetizing dividend and a stable and growing business.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. TSX:H (Hydro One Limited)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Date
2025/07/27
Date Created
2018/06/14
Author
dafxentiou