



Contrarian Investors: Is Hydro One Ltd. (TSX:H) Oversold?

Description

Contrarian investors are always searching for [beaten-up stocks](#) that offer a shot at some nice capital gains. Ideally, these companies also come with reliable dividends that offer an attractive yield while you wait for better days.

Let's take a look at **Hydro One Ltd.** ([TSX:H](#)) to see if it might be undervalued right now.

Upheaval

Ontario premier Doug Ford just kept a campaign promise to overhaul the board and executive ranks at Hydro One. In a July 11th statement, the company indicated that CEO Mayo Schmidt is retiring. In addition, the entire board of directors will be replaced. The Ontario government, which owns about 47% of Hydro One, will nominate 40% of the new board members. Other large shareholders will suggest their picks for the remaining seats.

Schmidt is receiving a pro-rated salary and bonus for 2018, plus a \$400,000 one-time payout to cover post-retirement benefits. His total compensation in 2017 topped \$6 million. It was this pay package that caused a major stir during the election, and it will be interesting to see who the company finds to replace Schmidt, and how much that person will receive to lead the company, which currently has \$25 billion in assets.

The stock initially dropped more than 5% on the news.

Earnings

Hydro One reported Q1 2018 adjusted earnings per share of \$0.35 compared to \$0.28 in the same period last year.

The company has worked hard to improve customer service, and the results started showing up in the first-quarter numbers. Customer issues solved on the first call increased four points to 89% and billing accuracy reached 99.7%.

Growth

Hydro One is working through its \$6.7 billion takeover of Washington-based Avista Corp., an electricity and natural gas distribution company with more than 700,000 customers. Hydro One has more than 1.3 million customers in Ontario.

The deal, which is expected to close by the end of 2018, will make Hydro One of the top 20 utilities in Canada and the United States with assets of more than \$32 billion.

Dividends

Hydro One raised its quarterly dividend by 5% in May to \$0.23 per share. At the time of writing, that's good for a [yield](#) of 4.8%.

Should you buy?

Under Schmidt's leadership, Hydro One was set to pursue a growth program similar to the one used by **Fortis Inc.** over past four decades. It will be interesting to see what direction the new CEO and board decide to take.

Hydro One went public in 2015 and traded for more than \$26.50 per share at one point in 2016. Investors can currently pick up the shares for about \$19.30.

Volatility should be expected in the coming weeks, as the process to fill the board seats is completed and the search begins for a new CEO. However, the dividend should be very safe, and a successful completion of the Avista deal could bring investors back into the stock.

If you have some cash sitting on the sidelines, Hydro One looks like an attractive contrarian pick today.

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