



Hydro One Ltd. (TSX:H) Cleans House: Good News for Residents, Bad News for Investors

Description

Hydro One Ltd. ([TSX:H](#)) is making some drastic changes. The company's CEO and board of directors are going to be replaced, with the former retiring and the latter resigning. Ontario's new premier Doug Ford [vowed](#) to replace the overpriced management if he were elected and has followed through on that promise.

The premier was happy with the outcome and believes that it will help turn the company around. However, without a controlling stake in the company, it's unclear how he was able to make it all happen.

Hydro One's outgoing CEO Mayo Schmidt had been criticized for earning a hefty salary of \$6.2 million, while residents in Ontario were seeing dramatic increases in their utility bills — so much so that it was becoming a political issue and led to Premier Ford making an election promise to address it.

What is perhaps most surprising is the way that the executive left, especially since it was believed that he would have been owed a severance of more than \$10 million if the board had gotten rid of him. Because he is retiring, his payout will only cost the company \$400,000.

Mystery and questions surround the moves

The premier made another lofty promise to residents of Ontario after the announcement, stating that their rates will decrease. "Those bills are going to come down 12%. We're going to give relief to the people of Ontario."

Not only is it unclear how he's going to ensure the rates will decrease, but it's also a specific number to provide to consumers. Critics of the premier have requested he release further details on the day's events and provide greater transparency on these issues.

Concerns for Hydro One investors

It may be a good day for Ontario residents if their bills end up declining, but for investors of Hydro One,

there are some big concerns here that would make me consider selling the stock.

The first being a lack of visibility into this decision and how a significant, but non-controlling shareholder was able to engineer such significant changes. Without transparency, it's going to be difficult for investors to trust the company, as that uncertainty represents a lot of risk.

The second is that the Ontario premier is clearly having a big impact on the company, and his plans could have an adverse impact on Hydro One shareholders, especially with the end goal being to drive down prices, which means the financials will likely see a hit.

What should investors do?

Hydro One has struggled since being listed on the TSX in 2015, with its share price failing to get any momentum, and it was down more than 11% leading up to the big announcement. I would expect that in the weeks that follow, we'll see the share price decline even further amid this uncertainty.

Investors would be better off staying on the sidelines on this one for a while, at least until there are more answers. After all, if the premier is able to get his way with the company's management, it's possible other things could be impacted as well, such as its [dividend](#).

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