After the Leadership Shake-Up, Is Now a Good Time to Invest in Hydro One Ltd. (TSX:H)?

Description

The political intrigue surrounding **Hydro One** (TSX:H) has driven the stock price down considerably. Investors in Hydro One have felt firsthand the effects of political turmoil when the CEO and the board were changed abruptly. But is this turmoil a buying opportunity to pick up a good stock at a cheaper price, or is Hydro One a stock that is better avoided?

We already have good utility companies like **Fortis**, a company that has raised its dividend continuously for decades. Or there's **Emera**, another Canadian utility company with growth prospects and excellent dividend growth. Both of these companies pay comparable, or even better, dividends than Hydro One, and at this point they are far more diversified and don't have a government as a major investing partner.

In spite of the political shake-up, Hydro One's operations and dividend hikes have been quite good. The company itself, apart from the leadership changes, is generally quite stable. In Q1 2018, Hydro One raised its dividend by 5%. At the current price level, the company now pays a 4.7% dividend. This is not a bad payout, but it is still comparable to what you get from many other utilities.

Hydro One increased its net income by 32% year over year. Revenues decreased 4.9% over that period though, although the decrease was primarily due to repurchased power. Without the power repurchases, its revenue was up 7.3%, although since the repurchases have a direct impact on final revenue, the negative number seems appropriate. Funds from operations increased by 6.4%. Overall, the quarter was not bad, but definitely not amazing.

Another criticism of Hydro One is that it is not as diversified as some of the other companies. While this is still largely true, the company is making acquisitions that it hopes will expand its footprint across North America. Its acquisition of Avista, an American, fully regulated utility company, should help expand its international exposure. Furthermore, the company does seem motivated to continue to expand beyond Canada, as the previous CEO had noted.

On the whole, there is nothing wrong with Hydro One. Its valuation is relatively low, trading at about 15 times earnings. This makes it slightly cheaper than Emera and Fortis, which are both trading around 17 times earnings. It is growing in a similar fashion to many of the Canadian utility companies. The fact it is continuing to expand geographically is promising, and its financial numbers aren't bad.

But these reasons simply aren't enough to choose it over companies such as Fortis or Emera. The dividend is not more appealing than the alternatives, its diversification isn't more extensive, and it's not growing faster than many other utilities. Besides, being business partners with the government is not that appealing, as recent events have shown. Maybe at a more significant discount, it might be tempting, but it's not currently cheap enough to warrant choosing it over other utility companies.

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