



Should You Buy Hydro One Ltd. (TSX:H) Stock Before its Q3 Earnings?

Description

Hydro One ([TSX:H](#)) stock has increased 1.3% month over month as of close on November 6. The stock slipped in late October but, like other utilities, managed to [sidestep volatility](#). Shares are still down 11.9% in 2018 so far. Hydro One has been a frustrating hold, even with its [good yield](#).

Hydro One is set to release its third-quarter results before markets open on November 8. This will be the first teleconference hosted for shareholders since the dramatic shakeup in the summer which resulted in the resignation of CEO Mayo Schmidt and the entire board of directors. This fulfilled a promise by the incoming Ford-led PC government, which had been critical of Schmidt's salary and had vowed to lower hydro rates for Ontario consumers.

The political theatre has come at a steep cost for investors. The summer turmoil drove the stock to a 52-week low of \$18.57 in July. Even more alarming, the political maneuvering in Ontario has caught the ire of U.S. regulators.

Hydro One has still not closed its acquisition of **Avista Corp.**, a U.S.-based utility company that was set to deliver over 700,000 customers in the deal. The acquisition would solidify Hydro One as a top 20 North American utility. Washington regulators, the Utilities and Transportation Commission, scrutinized the proposed acquisition in late October and asked whether Northwest customers could be protected from the decisions of the Ontario government.

Avista chairman and CEO Scott Morris attempted to throw cold water on the concerns. Morris reiterated that Avista will act as a Hydro One subsidiary, with "an independent board of directors." In its second-quarter report, Hydro One projected that the acquisition would close by mid-December.

On October 26, Hydro One announced that its wholly owned subsidiary Hydro One Networks Inc. had applied to the Ontario Energy Board (OEB) for a one-year inflationary adjustment to its transmission rates for 2019. This would represent an increase of \$0.23 per month on a typical residential customer's monthly bill. Next year the company is expected to file an application under the OEB's custom incentive rates framework for 2020-2022 after a review of its investment plan. The Ford-led PC government has promised to reduce hydro rates by 12% across Ontario.

Former CEO Mayo Schmidt and the board of directors departed after the company released a solid second-quarter report in August. Hydro One reported adjusted earnings per share of \$0.33 compared to \$0.20 in the prior year. The company also declared a quarterly dividend of \$0.23 per share, which represents a 4.5% yield.

Investors will be hoping for a positive start for the new management team, as they await the third-quarter earnings release. Hydro One boasts a wide economic moat and a nice dividend yield, but the management shakeup has the potential to throw its promising growth strategy off kilter. At this stage, things are too uncertain at Hydro One to recommend a buy in November.

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aocallaghan

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