



Here Is Why Hydro One Ltd. (TSX:H) Stock Looks Good After Losing Out on Avista Corp. (NYSE:AVA)

Description

Back in June, I'd [discussed](#) why Hydro One was one of the main stocks that would be impacted by the results of the contentious Ontario election. All three major parties had promised major changes, with the Ford-led PCs pledging to fire Hydro One's CEO and the entire board of directors. This summer it followed through on that promise when Mayo Schmidt and the board of directors resigned.

Last week, Washington State regulators rejected the **Hydro One (TSX:H)** proposed takeover of **Avista Corp.** Regulators cited political interference by the Ford-led government, but shared public control of Hydro One absorbed critique in prior meetings as well. Hydro One shares jumped 5.7% on the news that the deal was scuttled.

Yes, you read that right. Typically, a collapsed deal draws negative price action, but this news carries some positives for the Ontario-based utility. Investors should not be too discouraged by the news, and Hydro One should remain on your radar heading into 2019.

Avista stock has dropped 15.7% week over week as of close on December 7. The post-news drop plunged the stock into negative territory for the year. The proposed \$6.7 billion deal would have brought over 700,000 consumers into Hydro One. Avista has had a solid year in 2018. For the first nine months of the year, the company reported net income of \$90.6 million, or \$1.37 per diluted share, compared to \$88.3 million, or \$1.37 per diluted share, in the prior year. Earnings have come in slightly above expectations in 2018.

Hydro One will be forced to pay a \$103 million break fee to Avista. However, this will pale in comparison to the impact the deal would have had on Hydro One's balance sheet. The Avista acquisition was dilutive, but based on the company's pre-news stock price, Hydro One was getting what looked like a solid deal going forward.

The previous management argued that eventually Hydro One would have to expand its assets beyond Ontario's borders in order to maximize growth. The scuttling of the deal may see the company look inward in the near term, but investors should bet on future management revisiting the broader strategy.

For now, the good news is that Hydro One still has a monopoly in the most populous province in Canada.

In November, I'd [suggested](#) investors wait out buying Hydro One as bad news could usher in more volatility. Interestingly, that piece of news has produced the best trading day in 2018 for Hydro One. So, is the stock still worth grabbing today?

Last week's surge catapulted Hydro One stock into territory it has not reached since 2016. Its RSI was at 75 as of close on December 7, indicating that the stock is overbought. Investors may want to wait for a pullback as the final weeks of 2018 wind down. In any case, Hydro One remains an attractive option for those on the hunt for income, especially in an increasingly choppy market. The stock last paid out a quarterly dividend of \$0.23 per share, which represents a 4.2% yield.

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aocallaghan

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