



2 Reasons That Hydro One Ltd's (TSX:H) Failed Acquisition Should Concern Investors

Description

Hydro One Ltd ([TSX:H](#)) stock has been up on news that its deal with **Avista Corp** was rejected by U.S. regulators. Investors aren't keen on the deal as it will make the company's balance sheet worse and believe that Hydro One will be better off without the acquisition.

However, I'm not convinced that it is the right move for the company and if the deal is indeed dead and an appeal can't revive it, it might be time to consider selling the stock if you own it.

The deal would have meant significant growth for the company

Hydro One is based in Ontario and the purchase of a U.S. operator would give it a strong foothold into a much bigger market with the potential to more easily expand into other states as well. Adding that element of growth into Hydro One's operations would make it a much more desirable stock over the long term and it would attract more investors.

In the short term, there might be some concerns as to its balance sheet, but there are a lot more positives than negatives that would have come as a result of the deal.

Regulators were concerned about the Ontario government

The deal was rejected amid concerns that Premier Doug Ford and his government would be too involved in Avista's operations. Given that Ford was able to get the board [overthrown](#) despite it being a public company, their concerns are legitimate. Therefore, it wouldn't be unreasonable to expect that he could interfere in U.S. operations as well.

That should worry investors. If another government sees how troubling the Ontario government is, that's not a good sign. Hydro One has been used as a political tool and could be in the future as well. It's a troubling reminder for investors that the stock's problems go deeper than just an acquisition.

Where does the company go from here?

This is the big question that I'd be asking. After potentially wasting time and money on this deal only for it to fail this late in the game, I'd have some doubts about the company's management and whether the next deal will be any more successful.

It's also possible that the company may just stay where it is at and not pursue a big move, which might be even more concerning.

Bottom line

I'd never invest in the government; it's a wasteful and inefficient organization. And Hydro One is looking more and more like a company that still operates like one. While investors might be relieved at what they perceive to be a bad deal falling through, the bigger picture is much more alarming.

Convincing people that Hydro One is a good buy is going to be very challenging amid these [risks](#), which means returns will be limited. The stock has been struggling and is down year to date even with the help of the recent boost in price.

Although it's possible the deal could still be salvaged, I wouldn't hold my breath.

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Date

2025/08/17

Date Created

2018/12/13

Author

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