



Is Hydro One Ltd (TSX:H) a Buy After Abandoning its Acquisition With Avista Corp (NYSE:AVA)?

Description

We've seen this coming for a while now: **Hydro One** ([TSX:H](#)) is calling it quits on its acquisition of U.S. company **Avista Corp**. It was announced this past week that the two companies would no longer be joining forces. On its website, Hydro One cites denials from Washington and Idaho as key reasons for the merger not going through, as it wasn't optimistic that it could sway those states into changing their minds.

Why did the deal struggle to get approval in the U.S.?

The main reason for the denials stems to concerns about the level of [political involvement](#) from the province of Ontario. The new premier was able to [clean out](#) the company's leadership as he said he would despite not having a majority stake in the company. He's also used the company as a platform for votes by suggesting that he would focus on getting bills down for Ontario's consumers. While it's a good campaign promise, it may not be so good for investors that may not be thrilled to learn that the company's sales will likely decline and that the government is using the company to fulfill its own agenda.

What does this mean for Hydro One?

Hydro One will have to pay a termination fee of US\$103 million to Avista as per its contract. Whether the company will look to seek out another partner to help grow its U.S. business remains unclear. However, given the obstacles it faced with this deal, without a significant change in ownership, it seems as though it would be an uphill battle to get the necessary approvals from south of the border for any deal to go through.

It appears that for investors this may have been a forgone conclusion, as the stock has not seen a whole lot of movement on the news, and in the three months leading up to the announcement the stock was up around 2%. This suggests that investors have been expecting this and are likely well

aware of the risks involved with the company and Doug Ford having such a strong influence in Hydro One's operations.

Should you buy Hydro One?

I would steer clear from Hydro One stock after this news. A deal falling through as a result of too much interference from the government is not a good sign. It creates a big risk for shareholders in that Doug Ford could decide unilaterally to change a fundamental part of the business, which could have a significant impact on the company's growth prospects. Even without majority ownership, he's proven he can find ways to get what he wants, and that's a big red flag for me.

While the stock still offers a good yield of 4.5% and has shown stability, all bets are off as to what direction the company will take now. With a lot of money available now that the acquisition will not go through, it'll be interesting to see what Hydro One will do. Either way, I'll be watching it all unfold from the sidelines.

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Date

2025/07/05

Date Created

2019/01/27

Author

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