Is it Time to Invest in Hydro One (TSX:H)?

Description

Hydro One (TSX:H) remains one of the most misunderstood, yet intriguing investment options on the market at the moment. Incredibly, the stock has dropped over 12% in the past two-year period, despite continuing to offer a growing, stable, and profitable business.

Most investors may view Hydro One's dominant position in Ontario as something of a monopoly, particularly considering the fact that the company owns and operates an incredible 98% of the transmission lines in the province, making most, if not all of Hydro One's peers seem more like rounding errors than true competitors. That transmission segment provides a steady and recurring stream of revenue for the company.

Here's a look at what caused Hydro One's stock to drop in recent years, and why it shouldn't matter to long-term investors.

Hydro One is a behemoth full of opportunity, despite prior failures

Hydro One was predominately mentioned in the media over the past two years across two main threads: the now-failed merger with **Avista**, and the issues relating to executive compensation and the rapidly increasing rates consumers were being charged.

Ironically, both issues were twisted into the Ontario election last year, and few would argue that those issues, save for a few salvos on executive compensation fired back and forth between both camps, are mostly resolved. Specifically, an order from the government back in August of last year asked Hydro One to rein in what was perceived as "generous" compensation packages to executives, while a stern warning was made just last week from the government over differences in executive pay-caps, noting "this is not a negotiation," as Hydro One continues to search for a new CEO.

In the case of the Avista deal, following the resignation of Hydro One's board last summer, a new board was set up with a heavy representation from the Ontario government. Jettisoning the former management team, along with the former CEO, was enough for Washington state to speak up and note that the deal was no longer in “the best interests of the company or its customers.” As per the terms of the agreement, Hydro One was on the hook to pay Avista a termination fee in the amount of US$103 million. Like an amicable break-up, both companies have since gone their separate ways.

Turning to the other major concern among consumers (and indirectly, investors), Hydro One touted in its most recent quarterly update that most customer bills have now been reduced on average by $40 each month since their highs back in 2017.

Strong earnings, great dividend

Despite those public shortcomings, Hydro One’s recently announced quarterly results show that the company is on the right track towards growth. By way of example, in the most recent quarter, Hydro One posted earnings of $162 million, $0.27 per share, handily beating the $155 million, or $0.26 per share, reported in the same period last year. Much of the improvement over the prior period was attributed to unseasonably warm weather as well as lower taxes.

Overall revenue for the quarter came in at $1.56 billion, up impressively over the $1.44 billion reported in the same period last year.

In terms of a dividend, Hydro One has always appealed to income-seeking investors. The current quarterly payout provides a handsome 4.44% yield, which is not only competitive with some of the best defensive investments in the market but also secure in that the payout ratio remains within a sustainable range of 70-80% of net income, which is backed up through the company’s regulated business.

Should you buy?

Hydro One’s troubles over the past few years may have been an incredibly popular source of news for many, but as an investment option, Hydro One remains a profitable, stable, and growing business that continues to offer a very lucrative dividend. That makes Hydro One a compelling investment option, irrespective of who the Ontario government, as the largest shareholder of the company, places at the board table.

In my opinion, Hydro One is a great long-term investment for both growth- and income-seeking investors alike. Buy it now while it’s low, and let it grow for a decade or more.

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