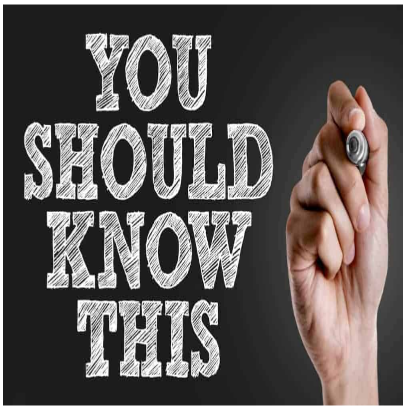

Is the Hydro One Ltd. (TSX:H) Dividend Safe?

Description

In July 2018, Fool contributor Haris Anwar asked if the dividend was safe at **Hydro One** (TSX:H). At the time this was a fair question. There was negative sentiment surrounding the company after newly elected Ontario Premier Doug Ford of the Progressive Conservatives fulfilled his promise to oust CEO Mayo Schmidt and the board of directors.

The bleeding did not stop there. In December 2018 U.S. regulators rejected Hydro One's proposed $6.7 billion takeover of **Avista Corp.** Washington State regulators took aim at the Ontario government, citing fears that it would meddle in Avista's U.S. operations as a reason to block the acquisition. Hydro One attempted to challenge the decision, but the regulator denied this bid in January.

Hydro One sits in April with brand new leadership at a reduced cost. Investors will keenly anticipate a full fiscal year under this new regime. Is its dividend any less safe today?

Back in February I'd recommended that income investors consider grabbing Hydro One. Shares had climbed 5.4% in 2019 as of close on April 15. The stock experienced weakness after the release of its fourth-quarter and full-year results for 2018 but has since rebounded.

In 2018 revenues climbed to $6.21 billion compared to $5.99 billion in the prior year. Adjusted net income rose to $807 million or $1.35 per share compared to $694 million or $1.17 per share in 2017.

In the fourth quarter, Hydro One announced a quarterly dividend of $0.23 per share. This represents a 4.3% yield as of close on April 15.

The scuttling of the Avista deal represented a significant setback for the long-term planning of the previous management team, but in the near-term, analysts estimate that it should boost its near-term profit outlook.

It also improves its cash position and prevents it from having to take on additional debt. Hydro One will undoubtedly pursue more acquisitions going forward, but the company walks away from a scuttled deal in a decent position.

Broader trends are also working in Hydro One's favour right now. Utility stocks had faced downward pressure in a rate tightening environment with investors looking again to bonds, but central banks sharply changed course in late 2018.

The Bank of Canada and US Federal Reserve have both indicated that a rate increase in 2019 is highly unlikely. **Toronto-Dominion Bank** went as far as to predict that the BoC will keep rates on hold through 2019 and most of 2020.

A dovish rate environment is good news for utilities, which will fall back into the good graces of income investors. Hydro One faces challenges, but it still boasts a wide economic moat as it possesses a monopoly in the most populous Canadian province.

This makes it an attractive target even when we consider its frustrating ownership situation. Building economic headwinds in the global economy will drive investors to defensive stocks, and Hydro One is a high-quality option.

Hydro One is expected to release its first-quarter results before markets open on May 9. Its new executive team will be put to the test in 2019, but investors should feel secure in its dividend with key tailwinds emerging early this year.

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aocallaghan