Income Investors: Buy and Hold This 2015 IPO

Description

Initial public offerings on the **TSX** tend to generate a considerable degree of hype. On the TSX we have seen success stories like **Canada Goose** and stocks that have punished gung-ho investors like **Freshii**. The stock that I want to cover today launched its initial public offering all the way back in November 2015.

Utilities are a "boring" pick in the broader market. These equities tend to offer limited growth and long histories of steady income. **Hydro One** (TSX:H) burst onto the scene in November 2015 after the Ontario liberals elected to sell off a large portion of the company in order to finance infrastructure projects and reduce the provincial deficit. The stock performed well in the opening months, hitting an all-time high in the summer of 2016.

Patient investors have not been rewarded in the years since. Hydro One stock has returned a negative average annual return over the past three years. This is due to key macro factors and some bitter struggles that plague the private-public ownership situation.

The latter relationship came to a head in the summer of 2018 after the recently elected Ford government pushed out CEO Mayo Schmidt and the entire board of directors. This had a predictable knock-on effect. Regulators in the United States torpedoed Hydro One's merger with **Avista**. In December 2018 I'd explained why this would be good for Hydro One going forward.

Macro factors also generated downward pressure for Hydro One since its IPO, namely, the Bank of Canada rate tightening pursuit. Utility stocks had thrived in the historically low rate environment, and rising bond yields threatened to throw these equities out of favour.

Central banks did an about-face in late 2018 in response to global market volatility and pressed pause on future rate hikes, and traders are betting that a rate cut is more likely in 2019 and 2020.

This has been a great environment for utility stocks. Hydro One stock climbed 15% in 2019 as of close on July 2. Investors should be encouraged by the dovish turn; even better, Hydro One has a much higher ceiling and is worth scooping up this summer.

The company is set to release its second quarter 2019 results in August. In the first quarter, Hydro One benefited from catch up revenues, lower taxes, and favourable weather. Hydro One elected to increase its quarterly dividend to $0.2415 per share, which represents a 4.2% yield at the time of this writing. Hydro One has announced a dividend increase every year since its initial public offering.

Foolish investors should target Hydro One in the second half of 2019 and gear up to hold for the long haul. Hydro One was gifted a reset of sorts after its Avista deal went belly up and its balance sheet brightened. The company boasts a wide economic moat with a strong monopoly in Canada’s most populous province.

The company’s price-to-earnings sat at a favourable 16 at the time of this writing. Investors will look back on Hydro One as one of this decade’s most successful IPOs.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:H (Hydro One Limited)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date
2025/09/04
Date Created
2019/07/06
Author
aocallaghan