



Why Hydro One (TSX:H) Stock Rose 6% in August

Description

Hydro One ([TSX:H](#)) stock rose 6% last month as the **S&P/TSX Composite Index** remained roughly flat. For a fully regulated utility with limited risk relative to the market, that's a huge upward move. Year to date, shares are up 20%.

But despite the rapid increase, shares still offer exceptional value. There are few stocks on the TSX with less risk, and the 4% dividend is rock solid. Let's cover what happened in August and then detail why this is an ideal stock for investors that worry about the [next bear market](#), especially retirees.

What happened?

The biggest news last month was the release of second-quarter earnings. EPS came in at \$0.26, roughly \$0.01 below consensus estimates. Revenue was \$1.4 billion, a 5% decline year over year. The slight earnings miss was a result of projected revenue being overestimated by around \$30 million. According to management, the decline was "primarily related to less-favourable weather." So, despite the miss, most of the story continued to track, allowing shares to move higher in the coming days and weeks.

On August 9, management declared a \$0.2415-per-share quarterly dividend, the same as before. The current yield now stands at 4% even. This dividend has never been more stable. Hydro One's businesses are entirely regulated. That means its revenues and profits are nearly guaranteed. And because its power production primarily comes from hydro, which is highly reliable and predictable, the company doesn't need to deal with shifts in commodity prices or disruptions in transportation.

The only way this dividend was going to be in doubt was if the company pivoted to a more risk-tolerant business model, such as expanding internationally or diversifying away from regulated revenue streams. On the latest conference call, investors were reassured that their faith in the dividend can remain solid for years to come.

"I can say that I don't foresee us doing M&A in the U.S. in the near term and we will be heavily focused on Ontario," said CEO Mark Poweska. "I like the way we're allocating our capital to the regulated

business in this company, and I believe that there is good growth in that business, primarily through organic growth and investment in the assets.”

What to expect

Last December, when shares were at their cheapest, I’d [suggested](#) readers take a closer look at the stock. “Over time,” I said, “Hydro One will trade on its fundamentals, including its predictable cash flows and strong dividend. Now is the time to scoop up shares.” The stock has rebounded strongly since that call, yet I still believe there’s long-term upside to be had.

Over the next decade, I expect total annual shareholder returns to be in the high single digits, potentially reaching 10%. While that’s not overly impressive, it’s a bargain for a stock that may experience little to no downside during the next bear market. This is simply one of the most resilient stocks on the TSX. Having that level of safety with reasonable expectations for upside is a rare combination.

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rvanzo

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