TFSA Investors: A Dull Dividend Stock That Could Make You Rich in a Recession

Description

In today's volatile market, certainty comes at a premium. And no business provides greater clarity than those with stable, highly regulated cash flow stream that leaves little to no room for surprises, positive or negative.

Indeed, the appetite for risk taking has decreased in recent months, with some of the most boring stocks out there that are now seen as "sexy" through the eyes of investors. This current rotation into dull, stable stocks is a major reason why utilities like **Hydro One** (TSX:H) have been soaring, despite nothing fundamentally exciting happening at the company-specific level.

Hydro One is a controversial monopolistic play that's been treading water since it hit the TSX index thanks to Ontario's decision to privatize the firm. There was tremendous backlash over high rates in the province of Ontario and ever since Avista acquisition bid was denied, Hydro One has struggled to diversify into new, "growthier" geographies.

At this juncture, a U.S. expansion looks unlikely, leaving Hydro One at the mercy of a federal regulatory environment that won't allow for much more than a "fair" rate of return. Hydro One is about as dull as it gets, with Ontario owning around a 47% stake in the electric transmission and distribution company.

While it will be difficult for Hydro One to outdo its peers in the space, I think the firm has a lot to offer risk-averse investors.

Being a monopoly comes with its perks.

Most notably, the company has a stable and highly predictable cash flow stream, which is seen as attractive for those investors who are caught between a rock (higher risk from equities) and a hard place (lower yields from bonds). In essence, Hydro One is a bond proxy or fixed-income alternative that can provide a bigger yield and the potential for consistent capital appreciation over time.

At the time of writing, Hydro One sports a 3.89% dividend yield, which is more handsome than the coupons of most bonds. And unlike fixed-income securities, Hydro One's dividend is able to grow under any market environment, making the stock an essential holding in both good times and bad.

With a capital-investment plan, Hydro One has the capacity to deliver low to mid-single-digit earnings growth, which is meagre compared to most other stocks, but when compared to bonds, Hydro One starts to look like the perfect stock to own as the risk of recession rises.

As a stock, Hydro One gets an "F." But as a bond proxy, Hydro One receives an "A+." And with the rough market waters we've had to endure, it's not a mystery as to why the stock has soared 30% over the past year.

Stay hungry. Stay Foolish.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing
4. Stocks for Beginners

TICKERS GLOBAL

1. TSX:H (Hydro One Limited)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing
4. Stocks for Beginners

Date
2025/09/03
Date Created
2019/10/12
Author
joefrenette