This Dividend Energy Stock Is Hunkering Down for the Upcoming Slowdown

Description

When a $14 billion company's top management tells analysts that the company is not looking to expand beyond its current province for the next five years, it makes you sit up and take notice. Why would a company that has consistently delivered good returns make a statement like this?

Maybe because it's the clearest sign yet that the next one to two years might not be the best period to deploy cash. Take a look at some of the statements made by Mark Poweska, president and CEO of **Hydro One** (TSX:H) during the Q3 earnings conference call:

> "I learned that we are an amazing company, with so much to be proud of and with so many opportunities for growth and success right here in Ontario … For the next five years we will not actively pursue any mergers or acquisitions outside of Ontario … We became distracted by opportunities beyond our borders. This outward focus narrowed our minds to the great opportunities that exist here at home … I would say we see opportunities right here in Ontario, that we don't need to go outside of Ontario … We see nice, steady, low-risk growth by focusing on what we've outlined in the strategy right here in Ontario."

Hydro One is Ontario's largest electricity transmission and distribution service provider. It distributes electricity across Ontario to nearly 1.4 million predominantly rural customers or approximately 26% of the total number of customers in Ontario.

Third-quarter results

Clearly, there was a lot of discussion about Ontario and its potential on the call. It wasn't as if the company reported bad numbers or was bleeding cash. As Poweska so proudly claimed, Hydro One has achieved nearly $250 million in productivity savings since 2015 (the year the firm went public). Operating costs were lower by 4.4% in Q3 2019 versus the comparable quarter last year.

Revenues took a small hit. Net of purchased power, revenues for the third quarter were lower than last year by 1.9% at $1.59 billion in Q3 2019 compared to $1.60 billion in Q3 2018.

For the three months ended September 30, 2019, the company reported net income attributable to common shareholders of $241 million — a 24.2% increase from $194 million last year, and an EPS of $0.40 compared to $0.33 in 2018. Earnings in the September quarter were above consensus estimates of $0.37.

Why then would a company with a dividend yield of 4.06% and a very low beta of 0.09 not have its business development team look outside Ontario?

There's a recession coming, as claimed by several experts, and Hydro One seems to be one of the best stocks to help investors last through one. It could even rally during a downturn. The company expects to grow earnings by an annual rate of 5%, which seems achievable given Hydro's track record of operational efficiency.

Hydro One was owned by the federal government until it went public and as a result, 99% of Hydro One's revenues are fully regulated. Recession or no, power demand is relatively stable, and the company knows what it is going to charge its customers. It can predict its profitability with near certainty.

It's a good defensive stock to have in your portfolio during both tough and good times.

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