



Is Hydro One (TSX:H) Worth an Investment Today?

Description

Many times, I have highlighted the need for investors to have utility companies as a key portion of their portfolio. You can't just pick any utility though and hope it will do well. There are a number of high-quality stocks with great growth opportunities, and then there are those that will most likely underperform their peers.

Although much of the stability and regulated earnings of the industry will be similar across all companies, it is the upside and future potential you are looking for, so that you maximize your investment dollars and aren't giving up opportunity cost.

One of the most popular utility stocks in Canada today is **Hydro One Ltd.** ([TSX:H](#)), so let's look at whether or not it's worth an investment.

Hydro One

Hydro One is an electric utility company responsible for transmission and distribution across Ontario. Although it is one of the largest electric utilities in North America, and 99% of its business is regulated, Hydro One has some significant disadvantages that hinder its growth relative to its peers.

One of the first things all investors must know, and what can't go without being talked about when discussing Hydro One, is the Government of Ontario's involvement and ownership stake of the company.

Government involvement

The provincial government owns roughly 47% of Hydro One, and although it will most likely sell more of its shares, it has stated it intends to keep about a 40% stake, which would still make it a massive shareholder and give it huge influence over the future of the company.

This was evidenced by Doug Ford's firing of the entire company's board of directors soon after he was

elected Premier. Although these problems have subsided recently, there is no guarantee it won't happen again, if not at the next election.

On top of the issues it may present in terms of the company's operations and potential acquisitions, it may also be keeping the shares depressed, as many investors will stay away from Hydro One purely because of the government involvement and potential political uncertainty.

All these factors combined already puts Hydro One behind the eight ball, which is one reason it has underperformed many of its peers.

Lacklustre returns vs peers

In the last three years its shares have appreciated by just over 3%, compared to an equally weight utilities index, a solid gauge of the utilities industry, that's up nearly 25% over the same period.

Clearly, its returns aren't great, and its growth opportunities aren't spectacular either. Though there are many reasons to account for that, the number one reason is the allotted profits it has in Canada are less than those in our neighbours to the south.

This is why a number of its peers have been buying up U.S companies and some even have a majority of their business located in the U.S.

It will most likely be difficult for Hydro One to make an acquisition to compete with its peers, given it has already tried and failed with its attempted acquisition of **Avista Corp.**

This not only hurts potential profitability today, it also hurts its growth potential, as any investment it makes in infrastructure and rate base will always be lacking extra basis points on the returns it receives relative to its peers.

Bottom line

Although Hydro One is a decent company for income seekers, the dividend will likely not grow very fast and given that it yields just 4% today, it seems slightly overvalued and not worth investing in, especially when you compare it to its peers.

For those seeking a [highly stable utility](#), with some of the best potential for growth, I would recommend a **Fortis** or **Emera**, although almost any company you choose will be better than Hydro One.

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