Better Than Fortis (TSX:FTS): This Utility Stock Is up 28% Over the Past 12 Months

Description

Fortis is often the benchmark when it comes to utility stocks in Canada. It's a household name and one of the top dividend stocks in the entire country. However, over the past year, the stock was up a modest 23%. And although that's better than the 14% that the TSX has risen by, it's lagged some of its peers. One stock that has surprisingly outperformed Fortis over the past year is **Hydro One** (TSX:H).

The Ontario-based utility stock has risen 28% during the past 12 months, easily outperforming Fortis. Investors may be surprised, as Hydro One was a disappointment after going public for a while, providing little to investors besides a decent dividend yield and a lot of controversy. However, now that the company is out of the news and just back to doing what it does best — producing solid and consistent results — investors have rewarded the stock.

Although Hydro One didn't show any growth in its most recent quarterly earnings, as its revenue was actually down from the prior-year quarter, it did see an improvement in its bottom line. Net income of $245 million rose by 24%, as the company reduced its debt and incurred less in interest expenses during the quarter.

After coming under fire for looking to expand into the U.S., Hydro One has decided to simplify its approach and focus on its key Ontario market. In the company's most recent earnings report, president and CEO Mark Poweska stated, "The roll-out of our corporate strategy will involve sticking to our strengths and continuing to champion for our customers and the electricity sector in Ontario. Our main focus has been and will remain operational excellence as we continue to drive performance."

It's a boring, no-nonsense strategy that will likely appeal to dividend investors and those who favour stability over aggressive growth strategies. And with the stock's performance, it's clear that investors are just fine with the approach.

Will the stock continue to soar higher?

The stock is currently trading at a forward price-to-earnings ratio of around 19, which is a bit expensive for a stock that's struggled to generate any growth. It is also trading at a modest 1.7 times its book value.

Overall, I wouldn't anticipate another strong year for the stock in 2020, because one of the reasons that Hydro One did as well as it did in 2019 was due to how poorly the stock had been performing up until then. And with its multiples not being terribly low, value investors may not be too excited to buy up more shares in the company.

Bottom line

Hydro One is a solid dividend stock to buy for its 3.8% dividend yield. However, if you're buying it With the expectation to score another good year from the stock in 2020, you may be expecting too much from Hydro One.

It did have a strong year, and it's helped investors regain confidence in the stock, but until the stock can start growing its top line consistently, it'll be hard to attract investors, as the stock is trading at its 52-week high and may be approaching a peak.

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