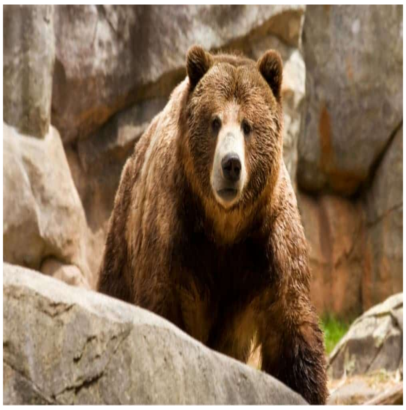

This Dividend Stock Can Survive the Coming Bear Market

Description

Coronavirus fears have sent global markets reeling. This week, the **New York Stock Exchange** temporarily halted all trading due to a sudden drop. Economists and market prognosticators are bracing for more pain.

It's difficult to stay invested during periods of volatility. Many investors opt to sell everything. Throughout history, however, market timing has been incredibly difficult. All too often, investors end up selling low and buying high. Predicting short-term swings in pricing can be successful, but it can just as likely work against you.

If you're worried about your money, resist the urge to cut and run. Instead, focus on stocks that can withstand the crisis. Dividend stocks are appealing in particular because they deliver a regular stream of cash that you can use to your advantage.

If you need extra income during a downturn to support everyday expenses, dividend stocks can deliver. If you need extra cash so that you can continue buying stock as prices get cheaper and cheaper, dividend stocks can deliver.

Just be careful: not all dividend stocks are the same. If a stock fails to deliver on its dividend, your advantages vanish. Even if the dividends continue, you want to make sure the stock price itself can remain resilient to protect the value of your portfolio.

If you want a dividend stock that can deliver even during a severe bear market, one option tops the list.

Built for battle

Hydro One Limited (TSX:H) has one of the most reliable business models in Canada. Even if a severe bear market arrives and doesn't subside for several years, Hydro One's profits will hardly be impacted. How is that possible?

It all starts with how Hydro One was formed.

The company bills itself as a “unique opportunity to participate in the transformation of a premium large-scale utility.” The transformation they’re referring to is moving from a government-owned entity to a publicly-traded company. Its IPO in 2015 was the largest privatization ever by the province of Ontario.

During its IPO, the company boasted of its “predictable growth profile, with consistent rate base growth expected under multi-year approved capital investment program.” That’s an enticing pitch. Let’s break it down a little.

What Hydro One essentially does is transmit energy from power plants to end users like residential homes, commercial businesses, and industrial factories. Its 30,000 kilometers of power lines cover 98% of Ontario, giving it a near monopoly.

You can start to see how powerful this business is. Power plants produce energy, which end users demand, yet Hydro One owns all of the transmission lines in-between the two parties.

With a stranglehold on the market, the company could flex incredible pricing power. The government understands this, which is why it institutes multi-year caps on what Hydro One can charge customers.

Around 99% of its revenues are considered rate-regulated. Yet capped upside also comes with limited downside, as the government also ensures a pricing floor and competitive protection.

Business as usual

In total, Hydro One simply needs to keep its transmission line network up and running to produce gobs of cash flow. A bear market won’t change this fate.

Throughout history, bear markets have barely put a dent in Canadian electricity demand. Multi-year pricing guarantees help ensure that profits remain stable even if markets plunge.

After a recent run-up. Hydro One’s dividend only stands at 3.5%, yet management aims for 5% annual rate base growth, so investors stand a decent chance at generating high single-digit annual returns over the next decade.

While that won’t blow you out of the water, but you’ll be thrilled to generate positive returns if a prolonged recession arrives.

CATEGORY

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2. Energy Stocks
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1. TSX:H (Hydro One Limited)

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Date
2025/08/23
Date Created
2020/03/10
Author
rvanzo