TFSA Investors Can Trust This 4% Dividend Stock

Description

TFSA investors are a step ahead of normal savers. Armed with a tax-advantaged account, they can take a wide variety of bets without any tax consequences. This opens up several opportunities that would otherwise be unavailable.

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Take dividend stocks, for example. These are companies that generate so much cash flow that they pay out the excess money directly to shareholders on a monthly or quarterly basis. By owning these stocks, you generate a passive-income stream without lifting a finger.

These dividends are taxed, however, making them tax-heavy investments. But TFSA investors sidestep that problem altogether considering their dollars aren't subject to dividend or capital gains taxes.

If you want tax-free income, there's no better stock than **Hydro One** (TSX:H). Especially in today's environment, stability is key. You must find opportunities that can deliver no matter where the economy heads.

In almost every future imaginable, Hydro One stock should deliver positive gains. TFSA investors can trust this dividend stock.

Here's the secret

Hydro One is a utility stock. These are special businesses, but it's important to know exactly which kind of utility the company is.

Analysts typically separate utilities into *regulated* and *unregulated* categories. These terms relate to how the company prices and contracts its production. The production is usually electricity, but it can also include other necessities like natural gas or water.

Regulated utilities often have monopolies over their respective markets. For example, if one company builds a power plant to service an entire town's electricity demand, there isn't a need for a competing power plant. This company has cornered the market, and in return, regulators set caps on how much it can charge. Regulators also provide pricing floors, minimizing downside risk.

With mitigated downside potential, regulated utilities usually pay big dividends to shareholders. Operating visibility is almost guaranteed. TFSA investors love these stocks because they generate passive-income streams with zero tax consequences.

Unregulated utilities, meanwhile, need to sell their production on the open market. This increases upside potential, but without regulated rates, pricing could collapse at any time, eliminating profitability. These stocks are promising during a bull market, but in times like these, they present too much risk for most TFSA investors.

Hydro One is a *regulated* utility, meaning its cash flows are stable year to year. But as well see, its advantages go much further than that.

TFSA investors: Pay attention

Hydro One differs from your typical regulated utility. It specializes in transmission and distribution, commonly known as T&D. These assets include the transformer stations and power lines you see on the side of the road. It’s essentially a middleman business, sitting between power plant facilities and the end consumer.

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Roughly 99% of Hydro One’s business is rate regulated given the company controls 98% of Ontario’s T&D market. This niche combines the stability of regulated earnings with the market power of a T&D monopoly. If power generation businesses want to serve the Ontario market, they need to go through Hydro One first.

This is simply the best stock to own for TFSA investors that want to mitigate their volatility. You’d be hard-pressed to find a more reliable business than Hydro One. The 4% dividend combined with mid-single-digit rate base growth should provide for positive returns in almost any environment.

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