1 Ultra-Safe Dividend Stock for Uncertain Times

Description

In uncertain times, demand for safe haven assets increases. Unfortunately, government bonds, savings accounts, and other government-backed investments currently generate next to nothing in terms of returns, forcing investors to look for other safe haven investment opportunities that generate higher returns.

Hydro One Limited (TSX:H) fits the bill, and provides a resilient business model that holds up well in uncertain times, a steady and growing dividend, and consistent share price appreciation.

Resilient business model

Hydro One is the largest electricity transmission and distribution company in Ontario. The Government of Ontario was the sole previous owner of Hydro One. In 2015, the Government of Ontario sold a portion of its stake to the public and Hydro One began trading on the **Toronto Stock Exchange** (TSX).

The Government of Ontario is still Hydro One's largest shareholder, owning just over 47% of the common shares after a 2018 share sale.

The company also operates in a highly regulated sector that sees consistent demand and a high level of predictability. At the end of the day, electricity is a basic necessity of modern life in developed countries, which means that there will be consistent demand for Hydro One's products and services, even during pandemics and financial crises.

Furthermore, Hydro One is primarily engaged in distribution, not power generation. This is a stable business model in that even if demand and the price of electricity were to drop, the company will still be able to leverage its distribution network to generate value for its shareholders. In terms of business model stability, it is hard to beat Hydro One.

Steady and growing dividend

Hydro One currently yields just under 4% — far higher than any government bond in Canada or the United States currently yields. Additionally, the already generous dividend has been growing consistently since the IPO.

Hydro One paid its first regular quarterly dividend in May 2016. Since then, Hydro One has grown its dividend from $0.21 per quarter in 2016 to just over $0.25 per quarter currently. While this is certainly not explosive growth, it's good for an average of 5% annual dividend growth.

In a world starving for yield, Hydro One represents an ideal mix of current yield and dividend growth. This will ensure that current income is meaningful while also ensuring that the dividend maintains its purchasing power against future inflation.

Consistent share price appreciation

Hydro One's share price has grown approximately 35% in the past two years. This is compared to a roughly 29% gain for **Fortis Inc.**, another Canadian utility company, and a -5% return for the **TSX Composite Index.** The company's share price stumbled a little bit during the last provincial government transition in Ontario.

However, it has maintained a steady upwards trajectory for the past two years. Additionally, its share price has held up incredibly well during the recent market turbulence.

An investment in Hydro One common shares inherently carries more risk than government bonds. However, the company's share price offers a healthy blend of stability and growth that should keep investors happy during the good times and the bad.

Takeaway

As yields on government-backed investments plunge toward 0%, investors are going to be forced to move down the capital structure to find sufficient yield. Hydro One provides one of the safest equity investments in the Canadian market. This is due to its resilient business model, steady and growing dividend, and consistent share price growth.

Together, these factors make Hydro One an ideal ultra-safe investment for uncertain times.

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kwalton