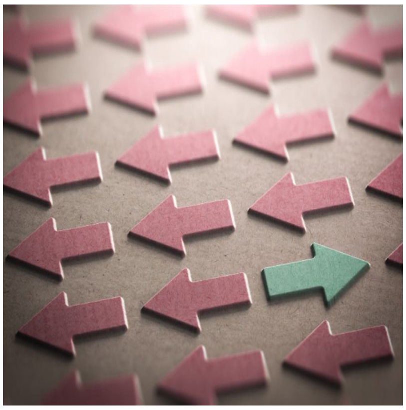

Contrarian Energy Bets: Imperial Oil (TSX:IMO) vs. Enbridge (TSX:ENB)

Description

This year hasn't been kind to the oil and energy sector. In February, the production war between Saudi Arabia and Russia caused oil prices to tumble in February. In March, countries around the world went into lockdown, and there was literally no demand for oil. In April, the price of oil dropped below $0.

As the world opened up in June and July, oil prices began to move higher, as the world restarted its engines. However, last week, oil prices began to fall again after gaining pace in August. Saudi Arabia reduced its prices for Asia and Europe, as fears of a second wave of the pandemic is forcing Europeans and Indians to stay at home, causing a drop in demand.

The oil industry is back to the situation it faced from mid-March to June, with rising supplies and lower demand. Clearly, demand across the globe is not coming back the way people expected it to. However, Europe and Asia will have to ease restrictions at some point. There is growing pressure on the state of Maharashtra in India, which accounts for almost 15% of the country's GDP, to end lockdowns soon. Oil prices should go up, as these major markets reopen, and energy stocks will stand to benefit.

Enbridge and Imperial Oil are Dividend Aristocrats

Maybe it is time to look at some contrarian bets in this space. Energy stocks have taken massive hits today. Giants like **Imperial Oil** (TSX:IMO)(NYSE:IMO) and **Enbridge** (TSX:ENB)(NYSE:ENB) have fallen significantly below their 52-week highs. Imperial Oil is trading at $19.28, down over 47% from its 52-week high of $36.99. Enbridge is at $41.13, down over 28% from its 52-week high of $57.32.

While these numbers may not look pretty, investors would do well to remember that both these companies are Dividend Aristocrats. Imperial has raised its dividend for 25 years in a row, and Enbridge has done it for 24 years.

Imperial is the second-largest integrated oil company in Canada. The company's dividend payout in the last decade has increased at an average of 8.2% every year. It reported a loss of $526 million for the second quarter of 2020 but paid out a dividend of $0.22 for the quarter, which translates into a forward yield of 4.44%. The company averaged 278,000 barrels per day in the quarter, 19% lower than last year, with overall utilization at 66% in the quarter.

Enbridge is a midstream-company that transports and stores oil. Around 98% of its revenues are from regulated operations. Pandemic or no, the company will see a steady cash flow and assured earnings. Enbridge has also increased its dividend at a CAGR of 11% for the last 24 years. Today, the company's forward dividend yield is a juicy 7.91%.

The final takeaway

Between both stocks, I would recommend Enbridge. The company's finances are more stable. If oil prices stay depressed for longer than expected, Imperial might have to look at a dividend cut. Enbridge, however, has said that it expects to increase its dividend by 3% until 2023.

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