Energy vs. Tech: Which Sector Should You Bet on for 2021?

Description

There's no doubt about it: the year 2020 was one of the worst years in recent history for the energy sector, especially oil. For the first time in history, oil prospects dropped down to negative territory, and the demand for the once-most-coveted commodity hit unprecedented lows. Tech, on the other hand, soared to new heights after the pandemic. Even though it doesn't occupy a lot of weight in the **TSX,** the tech sector was still one of the primary drivers of TSX recovery in 2020.

But the momentum, driven purely by investor sentiment, carried the sector and many of the companies too far. The **S&P/TSX Capped Information Technology Index** grew about 101% in less than a year (between April 2020 and February 2021).

The situation is different for 2021.

The energy sector

The sector saw relatively slower growth, especially in 2020. It started seeing some real momentum in 2021 and has grown over 27% since the start of this year. The momentum of the growth is breaking up now, and the sector is normalizing a bit, but this little growth bout has been a breath of fresh year for energy investors.

Even a relatively slow grower like **Enbridge** (TSX:ENB)(NYSE:ENB) has grown over 14% in the last three months. Though this rise still hasn't really "dampened" Enbridge's great yield and the company is still offering dividends and a mouthwatering yield of 7.1%. Despite a decent rise in the dividends, the payout ratio has come down a bit (218.9% from 330%), though it's still in dangerous territory.

Unlike **Suncor**, Enbridge refused to break its dividend streak and seems committed to increasing its payouts in the coming years as well. The revenue still has a long way to go before it reaches the pre-pandemic levels. Still, if the energy sector can maintain its growth/recovery momentum, Enbridge might see revenues rising to the same levels as before.

The technology sector

From the start of this year, the **S&P/TSX Capped Information Technology Index** has grown just 1%. Technology companies grew too fast too soon, and it seems the sector has run out of gas for now. Many tech stocks, even though they've come down quite a bit from their recent peaks, are still too hot to touch, and an example would be **Goodfood Market** (TSX:FOOD) stock.

From its cratered position in March 2020 to its peak in January 2021, the stock almost grew 600%. It has come down about 27% since the start of this year, and it still has a price-to-book of 9.4 times and an EV/EBITDA of over 140.

One good thing about this stock is that it's still standing on sound financial footing. The company has been growing its revenues at an incredible pace, and 2020 was especially good for the company. If it can retain its monetary growth rate in the post-pandemic environment as well, the company might still be a decent growth bet.

Foolish takeaway

If you take a relatively longer view of things, most tech stocks might still be a better bet compared to energy. Even though the energy sector probably has a few good years (or even decades) ahead of it, some significant changes might be just around the horizon. A major breakthrough in battery technology, better solar/wind farms, and even some fossil fuel sanctions can stall the slow growth of the energy sector.

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