1 TSX Energy Stock Is Your Cushion Against Inflation

Description

Inflation hasn't been talked about in financial circles for quite some time. At least for the past decade, investors didn't fear or care about inflation. Long-term deflationary factors, such as high debt and an aging population, somehow muted inflation. In 2021, however, economists, investors, and consumers are wary of rising prices.

High inflation not only has a corrosive effect on long-term savings or wealth but could erode the purchasing power of households and consumers. Despite the global pandemic, the Canadian economy is afloat because of the government transfers and stimulus packages that put money on the table. Likewise, the Bank of Canada's easy monetary policy keeps inflation at bay.

Inflation protection

Low inflation could last in the short term. However, the shift to tighter monetary policy and increased interest rates when normalcy returns could drive inflation higher. If you're an investor and inflation scares you, protecting your portfolio is incredibly important.

In the current environment, a post-pandemic spending splurge by consumers could trigger higher inflation. The economy could overheat subsequently, and inflation could rise quickly. It would not be pleasant to the stock market if it happens. Canada's inflation rate is below 3%, and, historically, equities have outperformed inflation 90% of the time at that level.

Some people believe precious metals like gold are the perfect hedges against inflation. Others recommend real estate or real estate investment trusts (REITs). However, many stock market analysts agree that natural resource companies are the best protection versus inflation. The energy sector, in particular, can shield investors from the wealth-eroding consequence of inflation.

Dividend stalwart

Let's turn to TSX's energy sector to see which company could stand as a pillar. Unknown to many, **Imperial Oil**

(TSX:IMO)(NYSE:IMO) is a dividend stalwart. The $29.1 billion petroleum company has been paying dividends since the 1880s. With a dividend track record that long, and the fact that it's an integrated energy company, you have a safety net in an inflationary scenario.

Imperial Oil operates in the oil sands of Canada. It engages in exploration, production, refining, and marketing of energy products that are essential to Canadians. The company is also the largest refiner of petroleum products in the country. About 25% of petroleum products consumed in Canada daily come from Imperial Oil. Esso and Mobil, both fixtures in Canada, are Imperial Oil's famous brands.

Thus far, in 2021, Imperial Oil (+64.04%) outperforms top energy names like **Pembina Pipeline** (+32.44%) and **Enbridge** (+18.62%) by a mile. The current share price is $39.93, while the dividend yield is 2.39%.

Key takeaway

Imperial Oil reported a net income of $392 million on revenue of nearly $7 billion in Q1 2021. In the same period in 2020, it posted $6.69 billion in revenue but declared a net loss of $188 million. During the conference call, the company announced a 23% increase in dividends.

Brad Corson, Imperial Oil's CEO, boasted, "We have paid a dividend reliably for over 100 consecutive years now and grown it in each of the last 26 years." The company will also spend $1 billion over the next two months to buy back 4% of its outstanding shares. Lastly, how can you go wrong with this investment when **ExxonMobil** owns 69.6% of Imperial Oil?

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