# Why I'd Choose Enbridge (TSX:ENB) Over an Energy ETF in 2022

## Description

Exchange-traded funds (ETFs) are great options if you want instant diversification. Besides reducing risk, investing in ETFs requires less or little monitoring. On the TSX, some Canadian ETFs offer exposure to the country's entire economy. Other ETFs, like **BlackRock iShares S&P/TSX Capped Energy Index ETF** (TSX:XEG), are industry specific.



That ETF is a top pick if you only seek exposure to Canada's energy sector. It tracks the S&P/TSX Capped Energy Index to the extent possible net of expenses and provides investors with long-term capital growth. The holdings of BlackRock XEG are in 22 energy stocks.

BlackRock's top 10 holdings include **Canadian Natural Resources**, **Suncor Energy**, **Cenovus Energy**, and **Tourmaline Oil**. Nearly all of the energy stocks in the portfolio were top performers in 2021. However, conspicuously absent from the ETF's holding is **Enbridge** (TSX:ENB)(NYSE:ENB). I'd choose the pipeline giant over other energy stocks and energy ETFs any time of the day.

# Oldest ETF

XEG is one of the oldest ETFs in Canada. BlackRock, a multinational investment management corporation, allocates the funds to Canada's energy sector without diversifying into other industries. Because XEG is an all-equity ETF, there is zero exposure to fixed-income securities like bonds and guaranteed investment certificates (GICs).

BlackRock divides the funds within the energy sector's different segments. However, the top two most significant asset allocations skew towards Oil & Gas Exploration & Production and Integrated Oil & Gas. As of January 11, 2022, the allocation for the former is 56.42%, while it is 42.76% is for the latter.

XEG is a pure-play energy sector ETF that expresses the energy industry view. However, its performance depends on Canada's oil sands operations. The perennial threat to the ETF is the commodity price volatility that affects total returns. Energy was the top-performing sector in 2021, and XEG's total return was 82.81%.

## Investment thesis

A single-stock investment isn't a widely used strategy anymore, although Enbridge is a solid choice if you want to invest in only one stock. The $97.41 billion energy infrastructure company has a dividend-growth streak of 27 years. This top-tier energy stock trades at $52.12 per share and pays a generous 6.62% dividend.

Enbridge has four blue-chip franchises that provide predictable cash flows in all market cycles. Due to two important factors, the company maintains an industry-leading, low-risk commercial and financial profile. About 95% of customers are investment grade, and 98% of services are fully contracted.

According to management, each of its businesses has high visibility to attractive organic growth opportunities that will drive future cash flow growth. Enbridge has up to $6 billion of organic growth potential annually. Also, about 80% of its EBITDA has inflation protection.

Enbridge has $19 billion worth of secured growth projects through 2024. Management is fully aware that its shareholders expect Enbridge to generate strong financial performance and returns on the capital in 2022. Also, the utility-like approach and disciplined investment in energy infrastructure should translate to superior returns in the long term.



## No problem with Enbridge

The energy ETF is an excellent option if you want exposure to Canada's hot energy sector. However, declining commodity prices, low crude oil demand, and several other factors could negatively impact the ETF. Investors won't have problems of that sort with Enbridge, and it can overcome industry headwinds and keep dividends flowing every year.

**CATEGORY**

1. Energy Stocks
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1. NYSE:ENB (Enbridge Inc.)
2. TSX:ENB (Enbridge Inc.)
3. TSX:XEG (iShares S&P/TSX Capped Energy Index ETF)

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