1 Energy ETF to Buy Instead of Suncor (TSX:SU)

Description

The Canadian energy sector is still riding the post-pandemic growth momentum, but sooner or later, it's expected to enter the correction phase. And if the correction is proportional to the growth phase, which has sent the **TSX** energy index up 329% since the crash – significantly higher than most other sectors – the correction could be quite brutal as well.

However, the dip might not be *as* worth buying as the dip of any other sector would be, thanks to the long-term relatively bleak outlook of the energy sector. Even before the pandemic, the industry and most companies offered minimal capital appreciation potential. Most people bought the energy companies for their dividends. And the performance post-correction will likely get settled in the same pre-pandemic rut.

With that in mind, buying a stock like **Suncor** (TSX:SU)(NYSE:SU), even though it's the oil sands leader in the country and one of the largest oil sands companies in the world, might not be the best way to gain exposure to the energy sector. A diversified ETF like **BMO Equal Weight Oil & Gas Index ETF** (TSX:ZEO) might be a much better option.

The oil and gas index

Just the fund's name, BMO Equal Weight Oil & Gas Index ETF, shows one reason why it's a better choice than Suncor: oil and gas. The fund offers you good exposure to both, while Suncor is much more about oil than it is about natural gas, which may have a much better place in the green future than oil.

The fund aims to track the value of the Solactive Equal Weight Canada Oil & Gas Index as closely as possible. The index is made up of nine securities, and ironically, one of them *is* Suncor, but where its heavy asset base (oil sands) weighs it down, other energy giants in the country balance it out. The presence of pipeline giants like **Enbridge**, **Pembina**, and **TC Energy** also offers it more stability than a pure production-oriented basket of assets.

Performance

Now that Suncor has regrown its payouts quite close to the former value, the yield has gone up and is currently 4.4%. Compared to that, the annualized distribution yield of the fund (2.74%) clearly doesn't match up. And so far, the fund also hasn't outstripped Suncor in a considerable way when it comes to performance and capital appreciation. But the post-pandemic recovery/growth of the fund was far more aggressive than Suncor's.

Still, the diversification and the exposure to natural gas is an advantage that's likely to pay off well in the long run, at least compared to Suncor.

Foolish takeaway

Apart from dividends, there is one area where the fund might not be a better choice compared to Suncor: ESG investing. Instead of gaining full exposure to just one company, you will get to add the ESG weight of nine companies in your portfolio, each with a different approach (and rating) to ESG.

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