Is Enbridge (TSX:ENB) Better Than an Energy ETF if Oil Prices Retreat?

Description

Investors who want instant diversification to mitigate market risks turn to exchange-traded funds (ETFs). Also, since the fund is a basket of different investments like stocks and bonds, a performing asset or security can compensate for the poor performers. However, investors in the red-hot energy sector could have problems if oil prices retreat.

Energy stocks and energy ETFs continues to outperform in 2022, because the pricing environment is favourable. Natasa Pilides, energy minister of Cyprus, said oil prices surpassing US$100 per barrel is quite tangible. Some observers predict US$120 per barrel if Russia invades Ukraine.

Let's imagine the reverse happens and oil slumps like in 2020. Should you ditch **iShares S&P/TSX Capped Energy Index ETF** (TSX:XEG) and hold **Enbridge** (TSX:ENB)(NYSE:ENB), or vice versa? The former is a top-performing energy ETF, while the latter is a top-tier energy stock.

Risk rating is high

Investors in BlackRock's iShares S&P/TSX Capped Energy Index ETF gains exposure to Canadian companies in the energy sector. The fund's investment is to achieve long-term capital growth by replicating the S&P/TSX Capped Energy Index's performance.

The energy sector is perennially volatile, and, therefore, the risk rating for this ETF is high. Nonetheless, XEG outperforms Enbridge year to date at +22.6% versus +8.5%. Price-wise, the ETF is considerably cheaper than the energy stock at $12.79 versus $52.79, respectively.

As of this writing, the portfolio has 22 energy stocks and total net asset of $1.63 billion. The exposure is in oil and gas exploration and production (56.35%) and integrated oil and gas (42.92%). **Canadian Natural Resources** (25.61%) and **Suncor Energy** (24.53%) have the highest percentage weights.

XEG's zero investment in Enbridge could be a deal buster. A would-be investor has no control over the fund and can't replace a small cap like **Birchcliff Energy**. If you need to liquidate, the ETF might be hard to sell, too. But on the overall, the ETF's respectable 45.71% total return (13.34% CAGR) indicates stability.

Low-risk business model

Enbridge is 407% more expensive, but its dividend yield dwarfs XEG’s payout (6.52% versus 1.77%). If you invest today, the share price is $52.79. Assuming you invest $50,000, the dividend income is $3,260. At the same investment amount, the ETF will produce $885 only.

The $106.88 billion energy infrastructure company is a Dividend Aristocrat. Management has raised its dividend for 27 straight calendar years, and the streak won’t stop anytime soon. Moreover, Enbridge has achieved its guidance every year in the last 16 years.

Although industry headwinds are strong, Enbridge operates like a utility company. The cash flows are predictable, and the sources are diversified. Each of the four best-in-class franchises has attractive growth opportunities ahead. Thus, expect them to drive future cash flow growth. The organic growth potential is around $6 billion per year.

Enbridge forecast 5-7% CAGR through 2024 with the successful execution of its $19 billion secured capital program. In post-2024, the cash flow growth drivers would be revenue inflators, productivity enhancements, and about $3-$4 billion core capital allocation.

No contest

ETF investing has pros and cons, although they are better investment options in certain situations. However, if your focus is on the energy sector, I don’t think an ETF exclusive to Canadian oil companies can beat Enbridge. There’s no contest in capital growth and dividend earnings.

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1. Energy Stocks
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