



Warning: Has a Bubble Inflated in This Canadian Industry?

Description

The coronavirus disease 2019 (COVID-19) has wreaked havoc on various sectors of the world economy. Unfortunately, the Canadian economy is heavily weighted in the industries that have been at ground zero of this crisis, with energy and financials that have dragged the **TSX Index** far lower than the indices just south of the border.

Not all industries are stuck in a funk, though. Some industries, like tech and renewables, have been white-hot of late, surging in the face of a potential second wave of COVID-19 cases. The tech industry took a breather last month, with various pandemic-resilient tech names declining heavily amid the market-wide pullback that cut the froth right off the biggest winners of the first half.

Many renewable energy stocks, though, have yet to correct, with shares that are above and beyond where their intrinsic value ranges lie. There's no question that a Joe Biden presidential victory would bode well for green stocks, as they continue to gain ground on their fossil fuel peers. Should President Trump pull off an upset, renewable energy stocks could be due for a pullback at the expense of many oversold fossil fuel energy stocks that are being tossed aside as if they're going out of style.

Could an inflated green bubble burst in a Trump victory?

Most renewable energy stocks have been skyrocketing into the stratosphere. **Brookfield Renewable Partners** ([TSX:BEP.UN](#))([NYSE:BEP](#)) is a whopping 160% from its 2019 lows and 102% off its March 2020 lows. While I've been a raging bull on BEP when shares sported a yield north of the 5% mark, I can't say I'm enticed enough by the top-notch management team to justify the recent run-up and the far loftier valuation.

Yes, Brookfield is the gold standard as far as alternative assets are concerned. But even the best business in the world can be a sell if the valuation isn't attractive and you run the risk of overpaying for a stock. Although I wouldn't go as far as to call Brookfield Renewables a bubble, shares are frothy and way overdue for a pullback, which could hit at some point over the coming months, possibly back to \$60 as a part of a healthy correction.

Another hot green play

It's not just BEP that's been soaring of late, either: **Northland Power** ([TSX:NPI](#)) also made a new all-time high amid the pandemic, with shares that more than doubled off its March lows. Northland stock was stuck in a multi-year channel of consolidation before its recent breakout, though. And shares aren't as expensive as you'd think after such its historic rally.

In the summer of 2019, I noted the possibility that NPI stock [would bounce like a coiled spring](#) as investors recognized the value to be had in the name.

"If you are well-versed in technical analysis, then such a prolonged period of consolidation is a big plus for those looking ahead. Stocks that tend to flatline for extended periods of time tend to [explode higher](#) when the time comes. In a way, when the rally finally comes, the magnitude of the upward moves tends to make up for the lost time over the years that shares were consolidating." I said.

Today, Northland's technical picture is just as beautiful, and the valuation isn't too extended to justify staying on the sidelines if you seek low-cost exposure to green energy.

So, there is no green bubble?

I don't think so. However, I do see pockets of overvaluation. But really, that can be said of any industry. BEP is a name that I'd be inclined to take profits on before the next correction, and NPI is a technically sound stock that could still have room to run.

If you seek renewables exposure after their latest run, I'd pick my spots carefully and opt for value over all else.

Stay Foolish, my friends.

CATEGORY

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TICKERS GLOBAL

1. NYSE:BEP (Brookfield Renewable Partners L.P.)
2. TSX:BEP.UN (Brookfield Renewable Partners L.P.)
3. TSX:NPI (Northland Power Inc.)

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