2 Canadian Stocks That Could Be Due for a Pullback

Description

After an impressive start to the year for the **TSX Index**, which has surged 14.2% and 27.4% year to date and over the past year, respectively, it's only prudent to at least think about doing some profit-taking in case a market pullback strikes.

Now, there are plenty of wonderful businesses that have room to run into year's end, most notably the reflation and reopening stocks, but there are also many names that have likely overswung to the upside. It's these such names that have exceeded your estimation of its intrinsic value that you should look to sell.

It's tempting to hold onto a name that's exceeded your estimates, but by doing so, you risk surrendering a big chunk of your gains to the hands of Mr. Market. In this piece, we'll have a look at two wonderful Canadian companies that I believe are overvalued and are at high risk of a pullback going into the summer.

Without further ado, consider doing a bit of trimming in **Brookfield Renewable Partners** (TSX:BEP.UN)(NYSE:BEP) and **Lightspeed POS** (TSX:LSPD)(NYSE:LSPD). It is worth noting, however, that I'm a huge fan of both businesses and their longer-term growth stories. That said, I'd much rather take a raincheck at current prices, as a better entry point, I believe, could be in the cards over the coming weeks and months.

Brookfield Renewable Partners

The sustainable energy trend isn't going anywhere anytime soon. It's a secular trend that will be going strong for many years, if not decades, to come. That said, I think many green energy stocks have surged well above their true value.

Some green plays, whether they be electric vehicle (EV) companies like **Tesla**, could be floatingaround in bubble territory. In any case, the broader basket of green energy needs to cool off. Andmildly overvalued Brookfield Renewable Partners could be in a spot to lose ground, as value investorsbook profits in their overheated green stocks.

Brookfield Renewable stock plunged 33% from peak to trough earlier in the year before bouncing back modestly to $47 and change, where the stock sits today, off around 24% from the top. While the bear market moment may seem buyable, I'd caution investors from getting in too soon, as the stock is still up over 70% from its 2020 lows. The 3.1% dividend yield is bountiful, but I think it could become even more bountiful, as green stocks trend lower at the expense of their value-rich fossil fuel counterparts.

Brookfield is a name that's worth paying a premium for. However, patient investors should look to the $40-42 mark before initiating a position, as the technical picture weakens.

Lightspeed POS

As much as it pains me to flip Lightspeed stock from buy to sell, I think the recent bout of weakness signals a far more painful pullback could be on the horizon. Today, the stock is off 16% from the top after posting a partial recovery from a 33% peak-to-trough plunge. Nevertheless, I think the modest bounce is a great opportunity to book profits in one of the hottest e-commerce stocks on the TSX.

There's a lot to love about the Canadian commerce-enabler, as it inches closer towards the post-pandemic environment. That said, the stock is still up over 160% over the past year, even with the recent bout of weakness. The stock is also up over 500% from its March lows. So, although the recent dip is meaningful, it's dwarfed by the magnitude of last year's rally. Should rates rise and the growth trade sours again, I think the downside risk could be severe.

It has a great outlook and great fundamentals, but the valuation is stretched at well north of 40 times sales. As for an entry point, I'd look to get in at around $66-68 should the year-to-date lows be tested by a pullback again.

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2. NYSE:LSPD (Lightspeed Commerce)
3. TSX:BEP.UN (Brookfield Renewable Partners L.P.)
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