Russia’s Potential Invasion of Ukraine Could Trigger Energy Stocks

Description

Unfortunately, it seems like we’re stumbling from one crisis to another. Just as there’s light at the end of the tunnel of our battle with COVID-19, we’re now faced with a geopolitical conflict in Europe. Russia has amassed troops at its border with Ukraine. Global leaders are worried that an invasion could be imminent.

This crisis could be averted if the issue is resolved diplomatically. However, investors must prepare for the unknown risks right away. Here’s what you need to know about how you can protect your portfolio no matter what happens in this region.

What happened?

Russia has beefed up its military presence at its border with Ukraine. As a result, the NATO alliance has also deployed frigates, fighter jets, and troops to the border for what they call “collective defense.” In short, tensions are rising, and if negotiations break down, it could erupt in an invasion.

The Biden administration has admitted that this is a possibility and is considering sending troops there as well. Today, staff at the U.S. Embassy in the Ukrainian capital Kyiv were ordered to leave the country.

So what?

A major conflict involving Russia and the U.S. could have devastating economic consequences. The energy sector could be impacted more than others, since Russia is one of the world’s largest oil and natural gas producers.

It’s too early to say whether Russia’s energy operations will be impacted or if its supply of natural gasto Western Europe could be used as a bargaining chip. But the energy market is already strained.Crude oil and natural gas are already trading near multi-year highs. War could further disrupt supplies. Investors need to prepare for such an unfortunate outcome.

Now what?

Protecting your portfolio against a potential invasion of Ukraine is not only easy but also cheap. Canadian oil and natural gas companies are still relatively undervalued. **Tourmaline Oil** (TSX:TOU) is a good example.

The company claims to be Canada’s largest natural gas supplier. Over the past 12 months, the price of natural gas has exploded up by 65%. The rising cost of energy has already expanded Tourmaline’s top and bottom lines. Net income more than doubled to $1.66 billion last year, while the company is expecting $2.8 billion in free cash flow in 2022.

This trend could be further entrenched if the Ukraine conflict erupts. Lack of energy supply in Europe could push global prices up. Higher energy costs could impact the rest of the economy, sending stock prices lower. This is why Tourmaline stock could serve as a potential hedge.

To be clear, this is a defensive strategy. If the conflict erupts, Tourmaline’s gains could offset some of the losses in the rest of your portfolio. If conflict is avoided (and I hope it is), Tourmaline’s valuation is so low that it has limited downside. The stock trades at just eight times earnings and 5.36 times forward free cash flow.

Bottom line

Russia’s potential invasion of Ukraine could be devastating. Unfortunately, this could magnify the energy crisis we’re already living through. Cautious investors should consider protecting their portfolio with a little exposure to undervalued natural gas stocks like Tourmaline Oil.

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vraisinghani