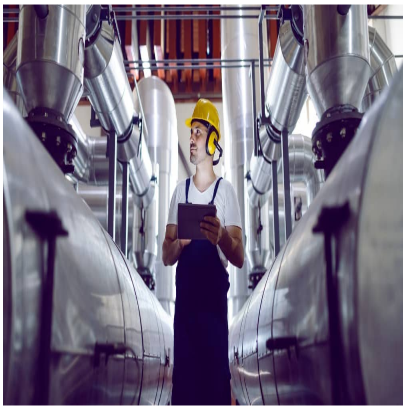

3 Reasons it May Be Time to Take Profits on TSX Energy Stocks

Description

TSX energy stocks have been on an incredible run, thanks in part to the sudden surge in the price of oil. Indeed, US$125 oil was out of the question back in the days of the pandemic, where demand was likely to be destroyed. With demand overwhelming supply, and Russia's oil supply likely to be banned by various nations, there are reasons to believe that the days of US$130 or even US$140 WTI is the new norm.

Canadians are going to feel the pain at the gas pumps, all while inflation continues to take a larger bite out of the average consumer's purchasing power. Indeed, it's a tough place to be right now. Fortunately, a cease-fire between Ukraine and Russia could happen at any time. Could a peaceful resolution cause sanctions to be rolled back? It's possible. In any case, such a cease-fire could see a blow-off top in oil. Indeed, sub-$100 WTI seems reasonable if such an occurrence were to happen. Arguably, the US$80 level seems far more sustainable over the medium term and perhaps US$60 over the long run.

TSX energy stocks soar! But how long will it last?

In any case, there's too much hype baked into the energy markets here. I do not view the run as sustainable. If anything, a pullback in WTI seems inevitable after such a sudden spike. In any case, it may be a good time to take at least some profit off the table if you've ridden the recent run-up in names like **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ), which is up a staggering 41% year to date!

In this piece, we'll look at three reasons why TSX energy stocks may be due for a near-term pullback in the 10-20% range. While they may not be pricing in US$130 oil, I think that a big oil price slip could lead to a reversal of momentum. I'd say the odds of a US$25 gain in oil (that'd see WTI top US$150) is far less likely than a US$25 plunge (WTI in the US$100 range).

Ukraine-Russia cease-fire could happen at any time

Things have gone from bad to worse, with millions fleeing Ukraine and reported evidence of a possible war crime conducted by Russia. With sanctions mounting, it's clear that the world is willing to pressure Russia until it backs down.

As the third round of peace talks wraps up, there are many big questions as to what it will take to cause Russia to back down. Nobody knows what will happen next, but if some resolution is made, expect oil to tank considerably, perhaps back to the double digits if a Russian import ban is off the table.

Valuations getting stretched

Canadian Natural Resources is one of many oil stocks that's starting to look a tad expensive versus historical norms. At 12 times earnings and three times sales, the stock isn't expensive by any means, but given a potential pullback in oil prices, the low P/E ratio may not be all that it seems.

Renewables could gain a second wind

Renewables aren't going to replace fossil fuels overnight, but the ridiculously high price of oil has many looking to electric alternatives. I believe that the longer oil stays elevated, the more green energy stocks will stand to benefit, as the world looks to accelerate its transition away from dirty energy.

The transition is already happening, but it's been painfully slow. In any case, one has to expect sky-high energy prices as just another incentive to get aboard the green energy train.

Bottom line on TSX energy stocks

It's really hard to tell what oil's next move will be. With oil at multi-year highs, I'd argue that it's a much better idea to take some profits before the next inevitable pullback. Now, a tonne of factors are behind oil price fluctuations, and it's impossible to predict what comes next. After such a historic spike, I'd argue it's prudent to do a bit of selling if you've yet to do so.

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