2 Energy Stocks to Avoid This Month

Description

Since the rebound in demand for oil worldwide, the energy sector has been on a roll. Oil prices have remained at elevated levels at the start of the second quarter of fiscal 2022, and it has boosted the performance of the **S&P/TSX Composite Index**.

The Canadian benchmark index is up by 1.95% year to date at writing, and much of the growth has come through the strength of the Canadian energy sector.

Commodity stocks become a popular hedge for many investors during bear markets. If you are interested in enjoying significant wealth growth in a short time, allocating some of your investment capital to Canadian oil stocks might seem like an excellent option to consider.

However, there may be some need to practice caution when choosing energy stocks to add to your portfolio. Today, I will discuss two Canadian oil stocks that risk-averse investors might want to avoid due to recent developments for both companies.

Suncor Energy

Suncor Energy (TSX:SU)(NYSE:SU) is a $59.68 billion market capitalization integrated energy company headquartered in Calgary. The company specializes in producing synthetic crude oil through its oil sands operations.

There is a global shift towards renewable energy, and like many of its peers, Suncor Energy also added renewable energy assets to its portfolio. Unfortunately, the company recently decided to sell its renewable energy assets to fund other projects to achieve its target for net-zero emissions by 2050.

Suncor Energy stock trades for $41.89 per share at writing, and it boasts a 4.01% dividend yield. Its share prices are up by 26.37% year to date.

However, its valuation has declined by 3.05% between April 18 and 21, 2022. A sustained downturn for the Canadian oil sands giant due to the company's decision to sell its renewable energy assets might be underway already.

Cenovus Energy

Cenovus Energy (TSX:CVE)(NYSE:CVE) is another energy stock that generated significant momentum on the back of strong oil prices. It is a $43.24 billion market capitalization integrated oil and natural gas company.

Headquartered in Calgary, Cenovus managed to leverage the industry tailwinds to deliver stellar growth. However, the company announced the suspension of its crude oil hedging practice on April 4, 2022, while announcing potentially steep losses in the first fiscal quarter of 2022.

Its management has assured investors that it does not need to hedge crude oil due to its healthy balance sheet, but that might not be very convincing for many. Cenovus Energy stock trades for $21.91 per share at writing. Its share prices are up by a substantial 34.58% year to date.

However, its share prices on the TSX have dropped by 4.16% in three days of trading between April 18 and April 21, 2022. It appears as though the downturn resulting from the company's decision to suspend its crude oil hedging practice is happening right now.

Foolish takeaway

Both energy stocks might still appear to be attractive investments to many investors. Comparing the year-to-date performance of these two energy stocks with the broader Canadian equity index shows that the companies have outperformed the rest of the market. However, the latest developments for both companies could end a powerful rally that began last year.

Suncor Energy stock and Cenovus Energy stock possess wide enough economic moats to see them through the short-term challenges ahead. However, risk-averse investors worried about their returns in the near term might want to wait on the sidelines to extract value once the dust starts to settle.

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