Why These Energy Stocks Are Tough to Invest in

Description

It has been tough to invest in **Crescent Point Energy** (TSX:CPG)(NYSE:CPG), **Cenovus Energy** (TSX:CVE)(NYSE:CVE), and **Husky Energy** (TSX:HSE). Take a look at their long-term price charts to get a good idea. In fact, investing in the Canadian market via an ETF, such as **iShares S&P TSX 60 Index ETF**, would have been a much better investment. But actually, there are superior investments to investing in the Canadian market.

HSE data by YCharts. Long-term price charts of CPG, CVE, HSE, and the Canadian market, using XIU as a proxy.

The three businesses are inherently highly cyclical, as indicated by their long-term price charts, as well as having above-average volatility.

Moreover, it's difficult to buy low and sell high in these stocks. Their profitability is more or less dependent on commodity prices. Additionally, they aren't the safest places to earn dividend income.

Highly cyclical businesses and stock prices

Crescent Point stock has traded in a huge plateau shape since 2002. Cenovus stock has been in a long-term downward trend. Husky's stock has had its ups and downs.

Simply by looking at their long-term price charts, investors can imagine how the stocks' earnings look like without actually looking at them: simply put, they're cyclical.

That's why the stocks are so volatile, hard to predict, and even more difficult to pick a bottom.

The beta is a measure of volatility. A stock with a beta of one indicates it has market volatility. A stock with a beta of two indicates it's twice as volatile as the market. Yahoo Finance currently shows that Crescent Point, Cenovus, and Husky have betas of 2.61, 3.29, and 1.62, respectively.

Commodity prices cannot be controlled by the businesses

Crescent Point, Cenovus, and Husky are more or less reliant on commodity prices. So, to some extent, they can't control the prices they're selling oil and gas at.

However, Crescent Point's bottom line is more dependent on commodity prices because it's an oil and gas producer. The other two businesses are more diversified as integrated oil and gas companies.

Wonky dividends

I remember when Crescent Point was held for its high monthly dividend by income investors. Of course, that all changed after the oil price collapse in 2014 when investors realized to their horror that Crescent Point wasn't as safe as perceived.

Even Cenovus and Husky had to cut their dividends. This indicates that the business performance of these energy stocks is highly unpredictable. So, don’t count on their dividends.

Investor takeaway

Of the three stocks discussed, Husky looks to be the best idea to invest for price appreciation at the moment. If you’re looking for core long-term investments or safe, growing dividends, you should look elsewhere.

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2. NYSE:VRN (Veren)
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