



2 Energy Stocks to Avoid Like the Plague

Description

[Energy stocks](#) are cheap.

And, as history shows, the best time to invest in a cyclical industry is at cyclical lows, which is where we are at now, as energy stocks slide further and further into bear territory.

Navigating this can be tricky, however, as we want to make big gains, but we also have to balance this with minimizing downside risk. Because the decision to sell or to not buy a stock can be just as important as the decision to buy.

Avoiding the losers

In the last few months we have seen the importance of this first hand, as the [downside](#) that certain stocks have fallen victim to has been enough to wipe away a significant portion of investors' wealth.

With this in mind, let's look at two energy stocks that I would caution investors to stay away from, as their downside risk is too great a risk to bear.

Crescent Point Energy (TSX:CPG)(NYSE:CPG)

With 90% of its production being oil, Crescent Point Energy is exposed to the price of oil in a big way.

The company has an enviable resource base, with exposure to large resource plays in lucrative areas, such as the Bakken that have low-risk development opportunities with strong economics.

But years of focusing on production growth rather than shareholder returns eventually caught up to the company.

Over the last 10 years, the company has a history of issuing equity in order to make acquisitions, effectively diluting shareholders in the process.

Currently, production is flat versus last year and is expected to remain pretty much flat in the next couple of years, as the company's growth-via-acquisition story is a thing of the past.

Other worrisome points and reasons to stay away from the stock are its low 1% insider ownership and its elevated payout ratio at 150% of earnings.

So, although the latest quarter was better than expected, Crescent Point has too much downside and remains one to avoid.

Vermilion Energy ([TSX:VET](#))([NYSE:VET](#))

Vermilion's production profile is roughly half oil, half natural gas.

The company's dividend yield is currently almost 9%, as investors have grown increasingly skeptical of the ability to maintain this dividend; the company has been free cash flow negative after the payment of its dividends and as debt levels have been rising.

Yet Vermilion's stock price still trades at premium valuations — a reflection of this company's diversification, depth, and quality of assets.

Bottom line

In times like these, when the industry is at cyclical lows, investors need to invest in those companies that have staying power, strength, and stability.

High debt levels, high payout ratios, and high valuations are not attractive at any time, but especially in these times.

Protect your money and avoid these energy stocks.

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Author

karenjennifer

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