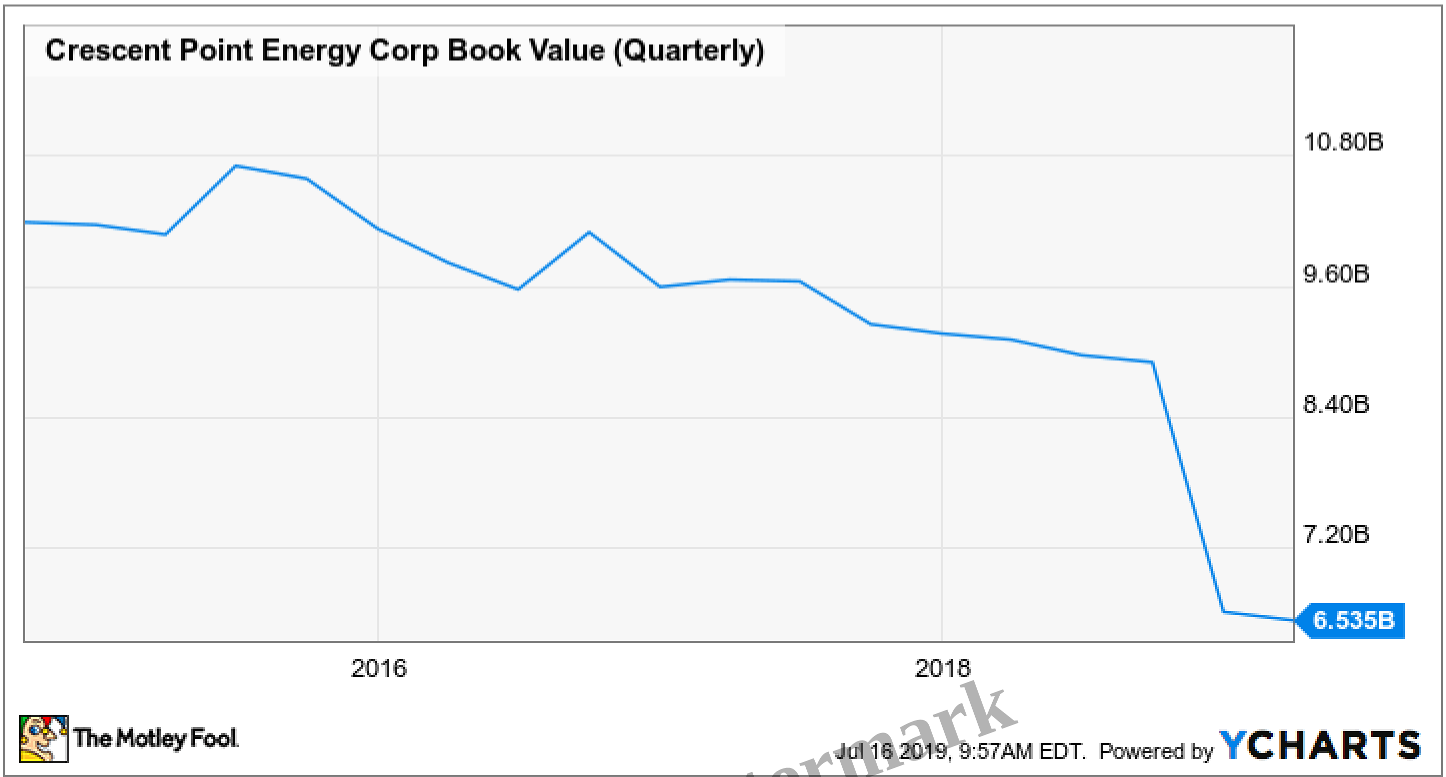
Is Crescent Point (TSX:CPG) Too Risky to Invest in Today?

Description

From afar, **Crescent Point Energy** (TSX:CPG)(NYSE:CPG) looks like it could be a very cheap buy today. Trading at just a fraction of its book value, the stock down more than 50% from a year ago and not far from all-time lows, investors might be tempted to pick up what could be a very appealing value buy. However, although the stock is definitely trading at a low, it still might not be a suitable investment for many investors.

Why the stock may not be the deal that it seems

At the end of 2018, Crescent Point recorded a significant impairment charge of $3.69 billion, which saw its financials take a big hit. And the problem is that while the company's book value might suggest the stock is worth more, that can prove to be a moving number:



As conditions in the industry fail to improve, more write-downs could be around the corner, and we could see Crescent Point's book value continue to plummet. And so investors need to be careful when just looking at something like book value to gauge a stock's value, since it's by no means locked in stone. The fact that the stock hasn't been bought up, despite Crescent Point trading below book value, might suggest that investors don't have much confidence in that number anyway.

After all, if an asset was trading below what you believed you could sell it for, then surely it would be a no-brainer to buy it. That's not happening with Crescent Point, and it's indicative of the risk that investors see in not just the company but the industry as a whole. Without more of a recovery, there could be more adjustments in the future that impact this valuation even further.

However, an argument could be made that the significant discount the stock is at now might justify an investment, simply because it is so large. The problem is that there are other issues keeping investors away from Crescent Point besides just the risk of impairment.

The company's long-term debt was $3.8 billion last quarter, and although it has come down, it's still well above half (58%) of its equity. And with the company's sales being down this past quarter and Crescent Point just barely posting a profit, there's a danger that if oil prices falter again, the situation might get even worse. The company may need to take on more debt, especially with the stock price being so low and making an equity issue that much more unappealing.

Bottom line

Crescent Point looks like a stock that could have a lot of upside, as it's definitely a cheap investment, but it's also one that comes with risk. Significant derivative losses of $259 million took a big chunk out of the company's earnings last quarter, but that was partially offset by foreign exchange gains that helped Crescent Point finish in the black. These are just some examples of the volatility we've seen on the company's financials lately and why the stock could take investors on a bit of a roller-coaster ride.

Despite its low price, Crescent Point stock is far from a sure thing, and it's not an investment that's for the faint of heart.

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