



Why Baytex Energy Corp. Shares Jumped 77% in Just 2 Days

Description

At 10:04 a.m. on January 22, shares of **Baytex Energy Corp.** ([TSX:BTE](#))(NYSE:BTE) traded hands for just \$1.57 apiece. Less than 18 months earlier the shares traded for nearly \$50.

Then just two days later at 10:04 a.m., Baytex was trading at \$2.78. Obviously this doesn't make up for its earlier losses, but if you had perfect timing you would have made a 77% return. That's not bad for a 48-hour time frame!

So what exactly caused all of this, and what does the future hold?

Levered to oil prices

As oil prices plunged last year, Baytex shares were among the worst performing on the entire TSX. And when oil prices bounced off their decade-plus lows, it's no coincidence that Baytex shares reacted especially well.

Clearly, Baytex is highly levered to oil prices, and it's easy to see why. Heading into the downturn (at the end of the third quarter in 2015), the company had \$2.3 billion in monetary debt, equal to 42% of total capitalization.

Just to put that in perspective, one of Baytex's covenants stipulated that this ratio couldn't go above 50%. So even before crude plunged, the company was pushing the limits (this covenant was renegotiated last February). That has made the downturn particularly painful.

Fast forward a year, and Baytex is in even bigger trouble. According to its most recent filing its debt load remains at roughly \$2 billion. Covenants may have to be renegotiated again. And if oil prices don't recover, then bankruptcy is a seriously possibility.

Of course, this makes Baytex more reliant on high oil prices than ever before. After all, oil prices will determine whether the company recovers or goes bankrupt. With stakes that high, it's no surprise that Baytex's stock is so volatile.

Why did oil rebound?

There were two main causes for the bounce in oil prices. One cause was some colder weather, which increases the demand for heating oil. The other reason was so-called short covering, in which those betting against oil lock in their gains by buying oil futures.

But in order for oil to recover over the long term, or even this year, we're going to need to see some fundamental changes. To be more specific, we'll need to see some meaningful drop offs in production. And until that happens, we can't count on any pullbacks. Keep that in mind before buying any Baytex shares.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. TSX:BTE (Baytex Energy Corp.)

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