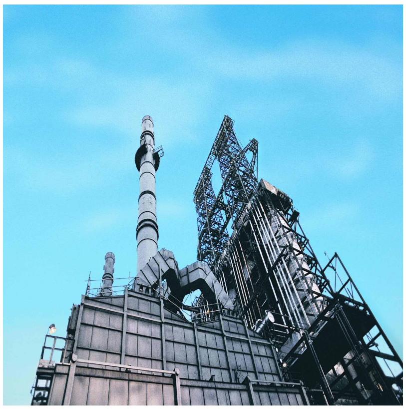

If Oil Keeps Rising, Baytex Energy Corp. (TSX:BTE) Could Have a Lot of Upside

Description

It's got a volatile share price, and if you follow financial headlines, you'll see that the NYSE doesn't seem to know quite what to make of it. But the fact is that if you've got strong nerves, you may just deserve the high payoff that buying stock in **Baytex Energy Corp.** (TSX:BTE)(NYSE:BTE) could reward you with down the line.

There's a lot of chatter about Baytex at the moment, with most headlines focusing on its merger with **Raging River Exploration Inc.** (TSX:RRX) and diluted share price. But you can understand why: the fact that Baytex's resultant oil production will likely leap to around 100,000 barrels per day, combined with a rising oil price, means that investors could be looking at a potentially lucrative value opportunity.

A risky stock, but one with barrels of upside

Looking at Baytex's beta, you might wonder whether it's worth the risk. Sure, there's the chance of decent returns, so perhaps you think it's worth a bite. But with that whopping beta of 4.7, Baytex's price volatility bucks almost five times as hard as the TSX index itself. That's why this stock might only be for high-risk investors at the moment.

One of the odd things about Baytex stock is that while it's overvalued, its share price is actually discounted by 20% when you compare its current standing of $4.42 with its expected future cash flow value of $5.50. Some analysts are giving a hold signal, so perhaps this is the best advice for would-be investors. However, its expected annual earnings growth of 32.3% might make growth investors reconsider.

If you want to play higher oil, Baytex is a risky way to do it. Its physical assets and debt levels make a potential drop in oil prices particularly heinous. What you would be doing by buying this stock is betting that oil prices will remain above their danger threshold, so if you *do* pick up Baytex shares for their upside, make sure that you counter-bet with something solid.

Baytex stock could be high-octane fuel for your portfolio

The recently announced merger with oil and gas junior Raging River will make Baytex one of the biggest North American oil producers

, boosting its assets and improving its balance sheet. This alone should make growth investors stand up and take notice.

But is it enough to get you over the fact that its P/E is 77.9 times earnings? Perhaps it should be. When you look again at that share price of $4.42, it's hard to see how much cheaper it could realistically be without turning into a penny stock! Look again at that 20% discount. Plus a P/B of 0.5 times book isn't bad. Since the issue here is earnings rather than price, keep that steep future growth curve in mind if you're a growth investor thinking of buying.

The bottom line

Oil prices are arguably the best indicator of whether or not to buy. You'll want to watch for oil prices to remain above the $55-to-$60-barrel threshold. Given the recent dip in Baytex's share price, investors looking for a value opportunity may have just found it. Buy it for the upside, as this stock is a risky but potentially lucrative mid- to long-term money spinner.

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