Is it Finally Time to Buy Baytex Energy (TSX:BTE) Stock?

Description

Baytex Energy (TSX:BTE)(NYSE:BTE) has taken quite a beating over the past seven years. Having peaked at $58.55 in 2012, it traded at just $2.28 at the time of this writing. That's a 96% slide. A long-term downtrend like that is scary to look at. However, with $27 million in net income in its most recent quarter, Baytex may be beginning to recover from its losing streak. In January, Baytex shares went on an epic 25% rally on the strength of oil prices at that time. Since then, the stock has started to cool off again, but with renewed optimism in Canada's energy sector, it might be time to give Baytex a second look.

We can start by looking at why the stock has been doing badly over the past decade or so.

Why the stock has been beaten down

Although Baytex's all-time high came in 2012, it didn't *really* start crashing until 2014. That's around the year that oil prices started tanking worldwide. Canada's energy sector took a huge hit around that time, with mass layoffs hitting the Alberta economy and net income plunging at most tar sands operations. Canadian crude is notoriously hard to extract, so when oil prices are low, tar sands margins get dangerously thin.

This situation creates a problem for Baytex, an oil sands acquisition, development, and production company. As a company that directly produces and sells oil, Baytex is affected by oil price swings — unlike other energy companies that focus on transportation and pipeline construction. This fact goes a long way in explaining why Baytex has taken a beating in the markets. Not only will low oil prices diminish investor sentiment in Baytex, but they will hit the company's earnings, which were weak in 2014, 2015, and 2016.

Reason for optimism

On the topic of Baytex's earnings, there is some reason for optimism on that front. In 2017, after three years of tanking earnings, Baytex pulled off $87 million in total net income. This squares with the fact that Canadian Crude began to recover that year.

And there’s reason to believe that Canadian oil will recover even more. As Fool contributor Karen Thomas recently pointed out, pipeline expansions and crude by rail are increasing the marketability of Canadian crude by increasing the number of markets it can be sold in. Should this trend continue, it will increase Baytex’s margins and drive higher earnings going forward.

Raging River Exploration merger

It’s worth looking at one of Baytex’s recent M&A actions up close, because it could have a major impact on its bottom line.

Recently, Baytex and Raging River Exploration executives agreed in principle to a “strategic combination” — essentially, a type of merger. In a press release, this was touted as providing a number of benefits to Baytex shareholders, including high-return oil assets and diversification across a wider array of energy niches. These factors could contribute to Baytex’s bottom line by increasing its margins and lessening its dependence on high-cost tar sands extraction.

Bottom line

Despite some encouraging signs in the oil industry, I still wouldn’t buy Baytex shares. Even though it has a positive medium-term earnings trend, the company misses more often than I’m comfortable with. However, a possible turnaround in the price of oil could easily send this stock soaring, so it will be one to watch going forward.

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