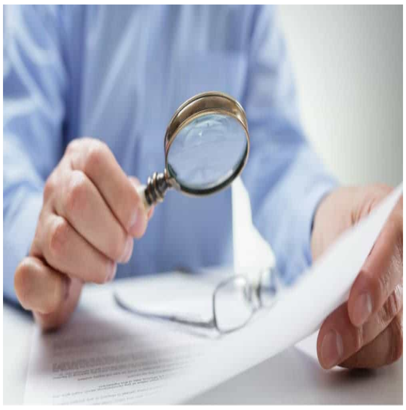

Why I'd Be Worried If I Owned Baytex Energy (TSX:BTE) Stock

Description

There's a world of difference between investing and trading, and no stock better illustrates that fact than **Baytex Energy** (TSX:BTE)(NYSE:BTE). While the stock has been a dud for long-term shareholders, falling 95% in five years, it has provided many opportunities for short-term profits. If you'd bought Baytex on February 12, 2016 for $2.49, you could have sold at $6.8 at a 180% profit later that year. And that's not the only profit opportunity, long or short, Baytex has presented to traders in the past five years.

If you have the time to trade, there may yet be plenty of opportunities to make money on Baytex. If you're a long-term shareholder, however, the picture isn't quite as rosy. Although Baytex stock is currently dirt cheap, it's subject to a number of risk factors that investors need to know about. I'll be exploring those in just a minute.

First the good news

The good news for Baytex shareholders is that the stock is both cheap and growing. Baytex is not just cheap in terms of its absolute price, but it's also cheap relative to the underlying company. Trading at 22 times forward earnings, 1.26 times sales and 0.42 times book value, this stock is about as discounted as they come.

And these low prices are hardly reflective of a company falling into the abyss. Baytex is a growing operation, having generated $87 million in earnings in 2017, recovering from a $485 million loss in 2016. In its most recent quarter, the company had $0.07 in net income, up from a $0.04 loss in the same quarter a year before. These are pretty solid growth rates, and if the company can keep them up, it may well have a bright future.

Now the bad news

The main risk factor for Baytex is the price of oil. Although the company is diversified between crude oil and natural gas, it is heavily dependent on the former. This creates a problem because a sharp downswing in the price of oil could hurt the company's margins. Tar sands crude is very expensive to extract, and a steep fall in its selling price could easily force a losing quarter on Baytex even if it does everything right.

A second risk facing Baytex is that of debt. In 2014, the company bought 22,000 acres of very productive shale-containing land in Texas. The investment was a profitable one in terms of earnings, but it loaded up Baytex's balance sheet with $744 million in assumed debt. This increased the company's total debt significantly: by the end of 2017, it had $2.4 billion in liabilities. Granted, the company's assets are much greater at $4.3 billion, giving a healthy chunk of shareholder equity. But the fact remains that this company has a lot of debt that will need servicing in the years ahead.

Foolish takeaway

Baytex Energy stock has many things going for it. Aside from the fact that it's dirt cheap and growing, it also stands to benefit from a possible recovery in the price of Canadian crude. But there are many risk factors to be aware of. Should the price of oil fall, the company's earnings will suffer. The debt could pose a long-term challenge. Finally, the stock's long-term trend could make for a jittery ride.

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