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

Description

It's been a rough couple of months for the Canadian energy sector, with the **S&P/TSX Energy Subindex** having shed 19% of its value since mid-April. Between volatile oil prices and ever-mounting crude stockpiles, the energy sector has taken a lot of heat, and stock prices have predictably fallen.

Although Canadian crude has generally been going up, rising from $35 to $40 in June, the recent upswing may simply be part of a volatile sideways pattern rather than a true bull.

It's in this environment that **Baytex Energy** (TSX:BTE) finds itself. Once trading for as much as $50, it's down to $1.83 as of this writing. Year to date it's shed 23% of its value–even with the uptick in the price of crude. Although most Canadian oil & gas stocks have been weak recently, Baytex has been one of the weakest of the bunch.

The question investors need to ask themselves is whether this is a buying opportunity — or time to jump ship.

What Baytex does

Baytex Energy is a company that acquires, develops and produces crude and LNG in Western Canada. As an exploration/production company, its earnings are directly influenced by commodity prices. Over the years, Baytex has done a number of M&A deals to increase its footprint–most recently the Raging River deal, which saw it exchange 1.36 BTE shares for each Raging River share.

Baytex's acquisitions, along with its capital intensive business have led to a highly leverage balanced sheet, which can create problems in times when oil is weak.

Balance sheet woes

Although the Baytex-Raging River merger was an all-stock deal, many of the company's other projects have been financed with borrowed cash. As a result, the company has a highly leveraged balance sheet

, with over $2.2 billion in net debt at the end of 2018.

The interest expense on that much debt is a major drain for a company that earned just $11 million (net income) in its most recent quarter, and is easily enough to tip the balance between a profitability and losses in a given quarter.

Could higher oil help?

Baytex' debt likely wouldn't be a problem if the price of oil were extremely strong. As an exploration and production company, it earns money directly off the commodity — the higher oil is, the more Baytex makes. The problem is that the price of oil has been extremely volatile lately, without a really clear long-term trend.

In the past few weeks, it's been trending upward, but this price spike looks like another swing in an overall sideways trend. The challenge for Baytex is finding a way to pay down its debt and remain profitable when oil prices aren't a given.

Foolish takeaway

I don't invest in energy stocks, but if I did I'd probably buy a pipeline like **Enbridge**. Pipelines make money by charging distance-based fees, so they can remain profitable even when oil is weak. Baytex, on the other hand, is tied inextricably to commodity prices. I wouldn't buy it unless something really miraculous happened with the price of Canadian crude.

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