Will Baytex Energy (TSX:BTE) Stock Make a Comeback in 2020?

Description

Baytex Energy (TSX:BTE)(NYSE:BTE) has been one of the worst-performing **TSX** energy stocks of the past decade. Reaching a peak price of $57.21 in 2011, it has since fallen as low as $2.22 — a stunning 95% decline.

The major culprit for BTE's poor performance has been weak oil. In 2014, the price of oil started falling, and many energy companies took lower earnings on the chin. Baytex, as a particularly leveraged company, got hit hard, as it had a level of debt that was not sustainable with weak oil.

Since 2015, oil has made a comeback, but for Baytex, things have only gotten worse. The stock has spent 2019 trending downward, and it was the same story in 2017 and 2018.

However, the company is beginning to turn things around financially, and may be set for a comeback. Before asking whether that will happen, let's take a look at what started BTE's dramatic slide in the first place.

What started Baytex's dramatic slide

There are two main reasons why BTE has been doing poorly in recent years:

Weak oil and debt.

In September of 2014, Western Canadian Crude traded for as much as $74. Later that year, however, oil prices collapsed worldwide, with Western Canadian Select falling as low as $12.69 in 2018.

It's not hard to see why such a situation would hit Baytex hard. As a company that acquires, develops and produces crude, its revenue and profit margins are directly tied to the price of oil.

When oil falls, the company loses money, so the decline in the company's financial fortunes was entirely predictable.

A second factor that contributed to BTE's decline was debt. In 2014, the year oil started crashing and company finished the year with $2.29 billion in total liabilities, up from $762 million a year before.

That's a huge jump, and the fact that it happened at the same time as the oil crash was a recipe for disaster. The large amount of debt left Baytex with massive interest payments that ate into earnings significantly. The end result was financial losses: the company's net income was negative for three out of the past four years.

How stronger oil could turn things around

It's beyond obvious that the last five years haven't been kind to Baytex Energy–or its shareholders for that matter. But if oil strengthens, the company could turn things around. As an oil explorer, developer and producer, it will inevitably earn more revenue if oil recovers.

For this reason, some are saying that Baytex could be a good bet for those who foresee stronger oil. Higher revenue doesn't necessarily mean higher profit, but higher commodity prices provide revenue growth without increased expenses, so there's a good chance BTE would benefit from stronger oil.

Additionally, Baytex has been slowly improving its balance sheet. By selling off assets, the company has managed to get its debt down to $2 billion. That's still an enormous sum for a company with a market cap of only $1 billion, but it's significantly less than the $2.29 billion the company had at the end of 2014.

Foolish takeaway

Baytex Energy's stock chart is a frightening thing to behold. In a seemingly endless freefall since 2012, the company has definitely seen better days. However, when oil was strong, this stock was actually doing pretty well. If we ever see $74 oil again, perhaps BTE could make a comeback.

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