



WARNING: This 1 TSX Stock Would Get DESTROYED in a Recession!

Description

We're nearing the end of 2019, and many professional investors are bracing for a recession.

Experts, including Ray Dalio and Kyle Bass, have been sounding the alarm about a coming downturn that could affect both the U.S. and Canada. Dalio recently put the odds of a recession before the 2020 U.S. election at 40%, while a National Association of Business Economics poll revealed that 70% of economists expected a downturn by 2021.

In such an environment, many stocks will be hit hard. Industries whose earnings are closely tied to economic growth (transportation, lumber, furniture) are particularly affected by recessions, and the attendant decline in consumer spending. There's one Canadian energy company in particular that could be hit so hard by a recession it would be an existential threat.

Baytex Energy

Baytex Energy ([TSX:BTE](#))(NYSE:BTE) is an energy company that explores for, develops, and produces crude oil and natural gas in Western Canada.

Its stock has been absolutely tanking since 2012, with a particularly sharp slide having taken place since 2014, when the price of oil collapsed.

Baytex Energy is not alone in having fallen off a cliff in 2014. Most energy stocks took a dive around that time, as lower oil prices led to decreased revenue and profit margins.

However, Baytex was hit harder than most, as it had [leveraged its balance sheet](#) prior to the oil crash to finance future exploration. As a result, the company finished 2015 with \$3 billion in debt, while at the same time its petroleum sales and earnings were tanking.

Why it's so vulnerable to a recession

Baytex Energy is uniquely vulnerable to a recession for several reasons.

First, like most energy companies, it could see lower revenues resulting from decreased demand for oil. During recessions, demand for certain petroleum products — such as gasoline and jet fuel — tends to decline, which can lead to lower oil prices. In these scenarios, most oil companies will see some type of decline in revenue.

So far, we've been talking about an industry problem. However, Baytex has several factors unique to it that compound the problem further.

The main one is debt. Although its debt is down from the \$3 billion year-end peak in 2015, the company is still carrying around [about \\$2 billion in liabilities](#). It has been focused on paying off debt recently, but it still has a lot of it for a company that's not even consistently profitable.

All of this would add up to a lot of trouble in the event of a recession. If demand for oil decreased, then the price would likely fall, and Baytex would find itself earning less revenue while simultaneously struggling with high interest expenses. In that scenario, the company's earnings would almost certainly be consistently negative, and it could be forced to borrow even more money to stay afloat.

Foolish takeaway

Baytex Energy has been one of the worst-performing TSX stocks over the past five years, and that doesn't look to stop soon. It's been five years since 2014, and oil is still pretty weak. BTE would pretty much need strong oil to turn things around. Unfortunately, if a recession hits soon, that's likely not happening.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:BTE (Baytex Energy Corp.)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Investing

Tags

1. Editor's Choice

Date

2025/07/04

Date Created

2019/10/31

Author

andrewbutton

default watermark

default watermark