



## Can Baytex (TSX:BTE) Stock Survive the Market Crash?

### Description

**Baytex Energy Corp** ([TSX:BTE](#))(NYSE:BTE) has made investors millions. The company has also *lost* investors millions. It's a volatile stock, with frequent buying and selling opportunities. But the market crash has provided another chance for risk-tolerant investors to profit.

At the depth of the 2008 financial crisis, Baytex shares were priced at \$11. Two years later, they had risen by nearly 500%. After the fallout of the 2014 oil price crash, Baytex shares traded at a mere \$2.50. Within months they had tripled in price.

The most recent market crash has pushed shares significantly lower. This former multi-billion dollar company now has a valuation of just \$230 million. This looks like another [buying opportunity](#), but you just have to wonder: Is this time different?

### This market crash is complicated

Baytex acquires, develops, and produces oil and natural gas in the Western Canadian Sedimentary Basin. It's more specialized than competitors like **Imperial Oil**, as it doesn't own any supporting infrastructure like pipelines or refineries.

You can think of this company as a pure-play on energy prices. If oil prices rise, Baytex becomes more valuable. If oil prices fall, the company suffers.

What will cause oil prices to rise or fall in 2020? It's all about Saudi Arabia. Before prices collapsed, Saudi Arabia proposed a global supply cut to boost prices. Russia refused. In retaliation, Saudi Arabia ended up *slashing* prices and *increasing* production.

It's clear that Saudi Arabia is playing the long game. It's willing to take a short-term hit on profitability in order to punish dissenters like Russia. Even after years of ceding market share, the country has made it clear that it alone controls the global oil market.

But there's another potential reason behind Saudi Arabia's actions. New Canadian oil sands projects

and U.S. shale plays have flooded the market with increased supply over the last decade, thus reducing selling prices. Some of these projects, however, break even at prices above US\$40 per barrel, and many need at least US\$30 per barrel.

In the current market crash, these projects are generating huge losses. It's only a matter of time before they exit the market. When they do, new investors may be hesitant to purchase the assets, as Saudi Arabia could launch another price war at any moment.

If Saudi Arabia gets its way, large volumes of global supply will *permanently* exit the market. Where does that leave Baytex?

## How to bet

If oil recovers to US\$50 per barrel, roughly where it was before the market crash, Baytex stock would be a clear buy. The company would swing to profitability, with its nearest debt maturity not until 2024. With bankruptcy risk off the table, shares would likely soar with a greater magnitude than oil prices.

Even if it takes a few months for the market to rebound, Baytex should survive with ease. Roughly half of its portfolio in 2020 is hedged at oil prices of US\$50 per barrel or more, meaning that much of its production will remain profitable even with depressed pricing, giving oil prices the rest of the year to recover.

But what if oil prices don't recover? It's fair to say that if pricing can't sustainably surpass US\$30 per barrel, Baytex would be a near-term bankruptcy risk.

The company's nearest debt maturity isn't until 2024, but it's still on the hook for interest payments until then. At current levels, the company is hemorrhaging cash flow, and additional lenders may be too cautious to patch the leak.

It appears that Baytex's survival lies in the hands of Saudi Arabia. If the pricing war ends today, Baytex stock will soar. If it ends in three months, Baytex stock is likely still a buy. If it persists through the rest of 2020, investors could lose everything.

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