



## Baytex Energy (TSX:BTE) Stock: \$0 or \$20?

### Description

**Baytex Energy** ([TSX:BTE](#))(NYSE:BTE) is a volatile stock, but when timed right, it can mint you a [fortune](#). In the first week of June, for example, shares *doubled* in value. A \$5,000 investment became \$10,000 in just five days.

To be sure, this stock has experienced plenty of [down](#) moves. When the coronavirus pandemic first began, shares slumped by 70%.

Baytex is now valued at just under \$1 per share. Yet as early as 2015, the stock was above the \$20 mark. There's a case to be made that the company will eventually retest its former highs. There's another scenario, however, in which equity holders lose everything.

So, which is it? Will BTE stock surge *20 times* in value, or will its value vanish entirely?

### Know these facts

This year, oil prices gyrated between US\$60 and US\$20 per barrel. This is a very difficult environment for long-term planning. In its latest investor presentation, Baytex outlined the uncertainty.

"The oil and gas industry is facing an unprecedented challenge due to significant degradation and volatility in global crude oil prices," executives explained. "We have aggressively shifted our operating and capital activities to maintain financial liquidity, minimize capital outlays, and emphasize cost reductions."

While the company's efforts are necessary, they paint a bleak picture for buy-and-hold investors. Who wants to invest in a business that is focused on short-term survival versus long-term growth? Granted, Baytex doesn't have much of a choice.

Still, even small improvements in the operating environment can cause the stock price to surge. When oil prices rebounded earlier this month, BTE shares shot higher by 100% in a week. More than 90% off their all-time highs, could shares continue to surge as conditions normalize?

## Should you bet on Baytex stock?

The problem is that Baytex has always been fighting for survival. Just look at its long-term performance.

In 1996, BTE stock was valued at \$8. In 2016, shares were down to \$3, despite an impressive spike during the commodity boom of 2008. Today, the valuation hovers just under \$1.

The incredible thing is that over this time frame, Baytex spent *billions* on acquisitions, new projects, and executive compensation packages. All of that capital resulted in a negative return for shareholders, despite 24 years of effort.

Legendary investor Jeremy Grantham has been sounding the alarm on this value destruction for nearly two decades. "Tar sands will end up as a stranded asset in the next decade or two," he famously proclaimed in 2014.

History has proven that it won't just be tar sands projects that end up as stranded assets, meaning that shareholders are left with nothing. Baytex's stock price is a testament to that.

Look at the numbers, the company has only 10 more years drilling inventory in each core area! It will cost billions to replace these reserves — something the company has very little financial power to do. Some analysts estimate that the business breaks even at US\$40 per barrel, meaning it is racking up economic losses on a *daily* basis.

It's not difficult to predict whether Baytex stock will hit \$20 or \$0 first. Whether it's 2020 or beyond, eventually, shareholders will lose everything.

### CATEGORY

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2. Energy Stocks
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