



Baytex Energy (TSX:BTE) Stock: Why it Soared in 2022

Description

Baytex Energy ([TSX:BTE](#))(NYSE:BTE) stock is really crushing it in 2022. Up 41.6% for the year, it is absolutely thrashing the market averages. Energy stocks in general are doing well this year, thanks to soaring oil prices. But Baytex is doing much better than the average energy company. In this article, I will explore some reasons why Baytex is doing so well in 2022 and try to gauge whether this outperformance can continue.

Oil prices surging

Until very recently, Baytex Energy was something of a joke. Its stock peaked all the way back in 2011, and it had, at one point, fallen 99% from its all-time high. In 2015, oil prices entered a prolonged bear market from which it took seven years to recover. It wasn't until the Russia/Ukraine war broke out that oil prices finally started reclaiming 2015 price levels.

The [rally in the price of oil](#) benefitted most energy stocks. When oil prices rise, energy companies can generate more revenue selling the same amount of oil, yet their costs don't necessarily increase. So, profits tend to rise.

This phenomenon impacts smaller energy companies like Baytex more than it does larger energy companies. Often, small oil companies can scale up their operations faster in times of rising oil prices compared to their larger peers. They may also have the flexibility to find new buyers they aren't already selling to. Finally, landing just one big oil field to develop could be a bonanza of a win for a small oil company, potentially doubling its revenue. For this reason, small oil companies tend to rise more in oil bull markets than big ones do. We're seeing that play out with Baytex today.

Baytex's high debt levels

There's another phenomenon that makes Baytex Energy particularly sensitive to oil prices: its high debt level.

Currently, Baytex has [\\$1.4 billion in debt](#), which is a lot for a company of its size. That might sound like a bad thing, but it actually produces higher incremental profits when prices are rising.

Let's say that we have two companies:

- Company A has \$600 in revenue and \$0 in expenses.
- Company B has \$600 in revenue and \$500 in interest expense.

For simplicity's sake, we'll say that this interest expense is the only expense the company has.

Now, let's imagine that both companies' revenue doubles to \$1,200.

Company A's profit doubles in line with revenue.

Company B's profit increases seven-fold, a much higher percentage change. Because of the interest on the debt, Company B sees a greater percentage impact to profit when revenue rises. Of course, the expenses also mean that the profit was much lower in the beginning. But presumably, both stocks were priced with their previous revenue and profit levels in mind.

Foolish takeaway

As we've seen in this article, Baytex Energy stock has been rallying thanks to oil prices and high leverage. In the past, BTE's high debt load was a huge problem for the company. Today, it's starting to look more like a healthy bit of leverage taking profits higher. Overall, it has worked out well for the company.

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