Baytex Energy Stock: Worth the Risk?

Description

Baytex Energy (TSX:BTE)(NYSE:BTE) stock has been rallying hard this year. Since the start of the year, it has risen 59% — at one point, it was up 125%. BTE was once one of the worst-performing stocks in Alberta's oil batch. Saddled with debt when oil prices collapsed in 2015, it was unable to turn profits for many years. As a result, its stock sank to incredible lows.

That was then; this is now. In 2022, the price of oil is well above $100, giving us the healthiest oil and gas market since 2015. In this environment, Baytex Energy can thrive. The question is whether it will continue to do so. The company still has a relatively high level of debt, well in excess of what the company earns. If oil prices go down, then BTE will likely struggle again. Viewed in this light, BTE can be seen as a high-risk bet on oil prices, as the stock truly soars with high prices but crashes when crude prices go down.

Baytex Energy stock history

Founded in 1993, Baytex was a big winner in the 2009-2015 oil bull market. From 2009 to the peak in 2012, the stock rallied 391%! It was not to last, though. Long before the 2015 oil price crash, Baytex began to crash due to high debt levels it had incurred in exploration. When oil prices fell, the stock tumbled even further, entering true "penny stock" territory at just $0.44!

Those who bought at those levels and held to today eventually realized some big gains, as many cyclical stock investors do in commodity bull markets. The question is, is BTE stock still a buy at today's prices?

Will it reclaim all time highs?

If the price of oil keeps rising, then Baytex Energy will keep going up. Its earnings rose from -$0.06 to $0.10 per share in the most recent quarter. With high oil prices, BTE can keep putting up those kinds of numbers. However, the company *needs* fairly high oil prices to make money.

Even after making considerable debt payments, BTE still has [$1.275 billion in net debt](). That's around 24 times what the company brought in in net income in the most recent quarter. Debt creates recurring costs like interest expenses, which make it harder for a company to turn profits at a constant revenue level.

In previous articles, I've touted oil and gas stocks' cheap valuations and how they will remain profitable, even if oil falls below $100. That's less the case with BTE, which truly depends on very high oil prices.

Foolish takeaway

It's been an incredible run for Baytex Energy this year. After many years of being one of the TSX's worst-performing companies, BTE is now beating the market by wide margins. Who knows how long this will go on for? If oil breaches $120 again, we could possibly see Baytex double. The other side of the coin is that this stock is going to get decimated if we see another 2015-style supply glut. There are many ways to play the oil rally. BTE is one that I will personally sit out.

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