



Is it Time to Buy This Beaten-Down Stock?

Description

With the stock markets at all-time highs, it is difficult to find quality stocks that are underpriced. However, there is one Canadian company that has taken a tumble in the past year after failing to meet investors' expectations.

DHX Media Ltd. (TSX:DHX.B) has been touted "Canada's **Disney**" in the past, but the stock was one of the worst performers on the TSX in 2016. After the release of its financials in mid-February, the company showed no improvement, investors grew impatient, and the stock price dropped even further. With the stock close to a 52-week low, is it time to buy?

High hopes for the future

In 2013 and 2014, DHX was aggressively acquiring content and adding to its established portfolio. With the rights to shows such as Bob the Builder, Teletubbies, and Caillou, DHX Media seemed to be well positioned to be a leader in the market for years to come. DHX also owns the selling rights for toys from these shows, resulting in another potential strong revenue stream for the company. With a focus of distributing its content through online streams, DHX appeared ready to diversify from the traditional TV channels and keep up to speed with current trends.

Another advantage DHX Media had over other producers and distributors of TV programs is its target audience. It is easier to produce content that keeps children entertained as compared to adults. Therefore, there's a strong possibility DHX could produce quality content to add to its acquired brands.

Underwhelming performance

There were high expectations that these multiple revenue streams would result in stronger cash flows and further growth; however, DHX has continued to miss expectations. For the past two years, the company slowed down its growth-by-acquisition strategy and hasn't been able to develop new content that's as good as its older brands. With weak cash flows, DHX will have to increase its debt load to acquire more content, and it may struggle to keep its dismal dividend yield of 1.32%.

Management is optimistic

Although the stock price is near an all-time low, DHX's management believes the worst is over and it will be able to deliver in the future. With some recent insider buying, management believes the stock is undervalued as well. However, management's optimism and expectations are not enough to make investment decisions.

Foolish bottom line

Although the stock is clearly at a discount, I recommend waiting for a few more quarterly reports before acquiring shares. The company has some quality assets, but investors need to see a turnaround in the company's financial performance to indicate a buy.

Fool on!

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