

DHX Media Ltd.: Latest Acquisition Adds More Value to This Value Play

Description

Halifax-based **DHX Media Ltd.** (TSX:DHX.B)([NASDAQ:DHXM](#)), which touts itself as the world's leading independent, pure-play children's content company, made two important announcements May 10.

One of them could seriously help its stock get out of value mode.

First, DHX Media announced its third-quarter results. Overall, they were about what management expected with revenues and net income down 6.9% and 25.9%, respectively.

While both of these numbers are less than stellar, it is a cyclical business, and future results are likely to be much better. DHX expects 2017 revenues to be at least \$305 million — about the same as last year.

Let's move to the second announcement: DHX Media will pay US\$345 million to acquire the Peanuts and Strawberry Shortcake characters from **Iconix Brand Group Inc.** (NASDAQ:ICON). In the case of Peanuts, the family of creator Charles Schultz will retain 20% ownership. The deal is expected to close by the end of June.

"The Schulz family is thrilled to be partnering with DHX Media, as we have been greatly impressed by their professionalism and expertise," said Craig Schulz, son of Charles M. Schulz, in the press release announcing the deal. "My father's comic strip and his entire body of work has delighted generations of fans for over 66 years, and we feel confident that DHX Media are the right people to help propel Peanuts into the future."

The key to this deal is the boost it gives to DHX Media's consumer products business, which, on a pro-forma basis, will now account for 44% of the company's overall revenue — up from 19% presently.

More importantly, its overall annual revenue will increase by 52% to \$443 million, and adjusted EBITDA will rise by 40% to \$134 million. Regarding earnings and free cash flow, the deal is immediately accretive.

Last May, I [picked](#) DHX Media as my small-cap stock pick as part of an all-cap portfolio I'd written about. My reasoning then was that DHX Media was an attractive acquisition for a larger media company. This latest purchase of Peanuts only ups its attractiveness, in my opinion.

Recently, hedge fund manager Debra Fine appeared at the Sohn Investment Conference, one of the world's best investment conferences held annually in New York. The best investors on the planet gather to share their insights with the crowd of 3,000 portfolio managers, asset allocators, and private investors.

Fine believes DHX stock, currently trading around \$6, is worth \$20, perhaps even \$30 — a number, if accurate, that makes DHX Media a must-own value play on the TSX.

Right now, DHX Media's numbers might look a little lumpy, but long term, it's got a double-digit stock price written all over it. With very few value plays available these days, DHX Media is yours for the taking.

After all, who can resist Charlie Brown and company?

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