Could This Canadian Small-Cap Be the Next Walt Disney Co.?

Description

On May 8, shares of **DHX Media Ltd.** (TSX:DHX.B) shot up 11.1% at one point during the day as Debra Fine of Fine Capital Partners was giving a presentation on the company at the annual Sohn Conference.

Each year, the Sohn Conference brings together about 3,000 investors and hedge fund managers, giving select individuals a platform to talk about what they feel is the "best idea in the market." The Sohn Conference is commonly referred to as the "Superbowl of Investing Conferences."

Fine used the opportunity to give her pitch on why she feels the shares of DHX Media today are grossly undervalued.

For those that don't know, DHX is a pure play on children's video content. The company develops, produces, and distributes films and television programs for kids and families in Canada and internationally.

DHX has amassed an impressive library of content over the past few years, which includes the likes of *Teletubbies*, *Yo Gabba Gabba!*, *Caillou*, and the recently acquired *Peanuts* and *Strawberry Shortcake* franchises, to name but just a few.

The bullish argument behind an investment in DHX is that unlike adult programming, children's content doesn't age the same way. While adults' taste in television programming will come and go, children don't burn out on content the same way.

Not to mention that children's content can be recycled for the next generation of children without incurring any additional costs. Add to that the merchandising opportunity, and you have a winning business model.

The big catalyst driving the bullish argument this year is DHX's resurrection of the once popular *Teletubbies* franchise.

Reviews of the new version have been favourable to date, and many analysts are suggesting that the *Teletubbies* franchise alone has the potential to double the company’s EBITDA this year if everything goes right.

Yet the company seems to be struggling to put it all together.

The company and investors have suffered through two major earnings misses over the past four quarters. As a result, analysts have been slashing their price targets, and investors have been leaving the stock.

Shares are down 30% over the past 10 months.

Should you buy?

Fine suggested the company should be trading at $20-30 given a market repricing on children’s content. She cited the recent Dreamworks acquisition as the basis for that valuation.

The problem with that argument is at the time it was acquired, Dreamworks had revenues of over $900 million; meanwhile, DHX’s revenues sit at $286 for the last 12 months.

In some cases, smaller companies like DHX will receive premiums from the market because they offer potential for above-market growth, which may be part of what Fine was speaking to.

At the same time, small companies carry a higher level of risk, particularly companies that are moving as fast as DHX.

Regardless of the premium that should be applied to the company, there isn’t much doubt that it will be significantly bigger going forward.

Sales are forecast to grow by 59% in 2018, and while EPS growth has been muted in recent quarters, analysts are calling for 30% year-over-year growth next year and have tagged the company with a $7.95 price target — 45% above Friday’s $5.49 closing price.

Investors who buy into the children’s content story may want to bite the bullet and make their move before this stock runs away on them.

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