Netflix, Inc.’s Commitment to Developing Canadian Content Could Benefit This Media Company

Description

Online streaming and content is becoming more popular, as more television providers try to get into the online space with services that could steal some subscribers away from companies like **Netflix, Inc.** (NASDAQ:NFLX) that have been giving consumers many reasons to cut the cords of conventional television services.

One way Netflix is able to keep its subscribers entertained, despite losing licences, is by producing its own content. With news that **Walt Disney Co.** will be pulling its content from the streaming giant, there will be even more pressure on Netflix to replace that void with quality content. As more companies and providers launch streaming services, it will be harder for Netflix to be able to rely on obtaining licences for popular television shows.

Netflix looks to develop original Canadian programming

Canada is one market where Netflix can certainly grow its original programming, and the company recently announced that it would commit to spending $500 million during the next five years to create original Canadian content.

One Canadian company that is looking to take advantage of that investment is **DHX Media Ltd.** (TSX:DHX.B)(NASDAQ:DHXM), which produces family-friendly content like *Teletubbies* and recently purchased the rights to the famous *Peanuts* characters. A good chunk of content on Netflix is geared towards children, and it wouldn’t be surprising to see some of that investment focused on family-oriented programming that DHX has had strong success producing over the years.

DHX could be a bargain after a poor quarter and year-end

The company released its earnings last week and subsequently saw its share price drop over 15% due to the disappointing results. Despite seeing 16% sales growth in its top line, the company posted a net loss of $18 million, which is up from a loss of just $1.7 million a year ago. However, a big reason for the drop in the bottom line was a result of costs related to the *Peanuts* acquisition.

Overall, the quarter finished below expectations, as sales were below forecast, and despite the increase in revenue, the company saw a decline in gross margin as cost of sales increased from 47% of sales a year ago to 54% this past quarter. As a result of a poor finish to the year, DHX saw its stock hit an all-time low of $4.75 since being listed on the TSX in 2014.

Should investors buy DHX?

The company has negative earnings per share in the trailing 12 months, but with many opportunities for growth and a strong portfolio of brands, there is reason to believe that the share price will recover from where it is at today. However, there is certainly some risk involved in this investment, as the company has a debt-to-equity ratio of over two and has posted negative free cash flow the past two years.

The stock could be a great buy, as it has a lot of upside, and if it struggles, it could be a good acquisition target for another media company.

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