# Will the Netflix, Inc. Deal Sink Canadian Media Stocks?

## Description

The Canadian government has come to an agreement with streaming giant **Netflix, Inc.** (NASDAQ:NFLX) to invest $500 million to produce original Canadian content. This comes after some voices had called for a tax on Netflix and other U.S. streaming providers, which was rejected by the Liberal government. Companies like Netflix fall under a CRTC exemption, which avoids Canadian content stipulations.



There has been increasing concern that consumers turning to these new services could freeze out Canadian content that is mandatory on traditional media like cable television and radio. Netflix, for example, is estimated to be used in over five million Canadian homes. **Facebook Inc.** and **Amazon.com, Inc.** are also making massive investments to produce original content to compete with premium creators like Netflix and HBO.

This new measure may ease concerns of a lack of Canadian content for some, but what about traditional Canadian media? With this investment and more to come, will evolving consumers bury these providers?

**Corus Entertainment Inc.** (TSX:CJR.B) stock is down 5.4% month over month as of close on October 3. The Toronto-based media and broadcasting company owns Global Television Network, specialty channels like YTV, Disney Channel, Nickelodeon, and others. Many of its specialty channels serve as content for children, but even very young generations are moving away from traditional mediums to streaming on popular devices.

In August, **Walt Disney Co** announced that it would pull much its content from Netflix to launch its own streaming service. The company stated that it would avoid pulling Marvel content, which would seem to suggest a focus on younger demographics with old and new Disney content. This should make traditional providers like Corus nervous for the future. Much of its recent growth has been due to larger acquisitions, and its concentration on a younger demographic could clip its wings and its 8% dividend yield.

Founder of **Quebecor, Inc.** (TSX:QBR.B) Karl Péladeau has been vocal about the new deal with

Netflix. He said that Canadian policy has effectively subsidized digital giants like Netflix and Amazon and seemingly advocated for the aforementioned sales tax. Though this criticism fell on deaf ears federally, the Quebec government has swiftly responded.

On October 3, Quebec finance minister Carlos Leitao declared that the province would seek to impose a sales tax on Netflix. The federal government deal received a good deal of criticism from the Quebec government, business leaders, and cultural and arts groups. Critics said the deal did not provide enough requirements for French-language content and gave Netflix an advantage over domestic competitors.

Quebecor stock has increased 27% in 2017 and 19% year over year. The company released second-quarter results on August 10, and revenues jumped 4% to $1.03 billion, while operating income climbed 9.7%. The broadcasting business made up a 121.7% increase to contribute to operating income.

I like Quebecor to continue its robust growth with provincial support. Corus, however, is likely to face threats to its growth potential and dividend yield as streaming services become more prevalent in Canadian households.

**CATEGORY**

1. Investing

**TICKERS GLOBAL**



1. NASDAQ:NFLX (Netflix, Inc.)
2. NYSE:DIS (The Walt Disney Company)
3. TSX:CJR.B (Corus Entertainment Inc.)
4. TSX:QBR.B (Quebecor Inc.)

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