



1 Interesting Potential Takeover Target for Contrarian Investors

Description

In an age where finding value opportunities has largely given way to a search for momentum stocks and growth gems, it is becoming harder to find companies with decent cash flows at discounts to intrinsic value.

I'm going to take a look at a company which has largely been forgotten by the market, and one which may present an interesting contrarian play for a value-oriented investor looking for a turnaround opportunity.

DHX Media Ltd. (TSX:DHX.B)([NASDAQ:DHXM](#)) is a children's entertainment company with a stable of assets which includes *Peanuts*, *Strawberry Shortcake*, *Teletubbies*, *Inspector Gadget*, and *Degrassi* franchises, among others. The children's entertainment sector, while traditionally very profitable, has become increasingly competitive and consolidated, leading to the belief that eventually DHX will be forced to sell or swallowed up by competition in the near to medium term given the changing landscape in this sector in North America.

The intellectual property held by DHX Media is what will be the focus of any company looking to acquire DHX. In recent quarters, DHX has continued to underperform, and the company's stock price has reflected the pessimistic outlook of the market with respect to the long-term prospects of this company moving forward. The drop of more than 25% for DHX's share price over the past 12 months has turned the company into an attractive target, with the company's management team indicating it will indeed be considering strategic alternatives, including a potential sale, should the transaction result in a net benefit for shareholders.

Fellow children's entertainment company **Spin Master Corp.** ([TSX:TOY](#)) could be one company in the running to add these assets to its already impressive and growing base of children's toys and entertainment assets. Spin Master has continued to grow its licensing and television segments — a segment which would see an immediate and accretive boost following such an acquisition, and one which may prove to be very profitable for both sides should DHX indeed be looking to sell.

Bottom line

DHX Media is a decent business in a relatively indecent competitive position in a growing industry. I anticipate that within the next 12-24 months, a business transformation, sale, or partnership will be on the table for this firm, as the company looks to survive in an increasingly competitive and consolidation-oriented industry.

For investors looking to play a Spin Master/DHX takeover bid, I would recommend buying long-dated put options on Spin Master and long-dated call options on DHX, along with a net long equity position on both firms moving forward.

Stay Foolish, my friends.

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Date

2025/08/02

Date Created

2017/10/17

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