Should You Stay Away From DHX Media Ltd. and Corus Entertainment Inc. in 2018?

Description

Media stocks have struggled along with other sectors to start 2018. The skepticism around companies like **Cineplex Inc.** is due to a number of factors, but the rise of home entertainment and streaming giants like **Netflix, Inc.** is chief among them. In its 2017 Communications Monitoring Report released last fall, the CRTC revealed that consumption of traditional television dropped almost an entire hour from 2015 to 2016.

Today, we are going to look at two companies that are exposed to the traditional television model. What is interesting is that both are heavily reliant on younger demographics, which are turning away from this media form. Are these stocks worth holding anymore?

DHX Media Ltd. (TSX:DHX.B)(NASDAQ:DHXM)

DHX Media is a Halifax-based pure-play children's content company. DHX Media is one of the largest producer and distributor of children's television in the world. Some of its acquisitions include Cookie Jar Entertainment, Ragdoll Productions, WildBrain, and others. It acquired the Family Channel in 2013. DHX Media stock has dropped 10.4% in 2018 as of close on March 23 and is down 26% year over year.

The company released its fiscal 2018 second-quarter results on February 13. Adjusted EBITDA climbed to $32 million compared to $24 million in the prior year, and net income has more than doubled in the first six months of fiscal 2018 to $15.6 million compared to $7.1 million. However, much of this growth was from the acquisition of *Peanuts* and *Strawberry Shortcake*. Total production revenue dropped to $26.6 million compared to $28.1 million in the previous year.

DHX Media also declared a quarterly dividend of $0.02 per share, representing a 1.9% dividend yield.

Corus Entertainment Inc. (TSX:CJR.B)

Corus is a Toronto-based media and content company. It owns the Global Television Network and possesses a significant footprint in the children's television market. Some of its properties include YTV, Treehouse TV, the Canadian Cartoon Network, and others. Corus stock has plunged 41.2% in 2018 so far and is down 46% year over year.

Corus released its fiscal 2018 first-quarter results on January 10. Consolidated revenues fell 2% year over year to $457.3 million, and consolidated segment profit dropped 7% to $177.8 million. Profit in the television segment dropped to $168.6 million compared to $184.4 million in the prior year, as advertising revenues fell 4% and subscriber revenues were static.

The company declared a dividend of $0.09 per share, which represents a monster dividend yield of 16.5%.

Is it worth it to buy low on either of these stocks?

DHX Media is confident that the assets in its *Peanuts* acquisition will prove extremely valuable down the line. The company has pointed to its partnership with **Mattel Inc.** as a promising source of potential free cash flow going forward. However, it is important to note that Mattel has also faced struggles due to flattening growth in North American markets.

Corus offers a substantial yield at its current value, but it is hard to recommend the stock considering the viewer trends in North America. I do not like either of these stocks going forward, but DHX Media is the better bet to gain traction in 2018.

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