This Stock Is a Cheap Buy That Could Be About to Take Off!

Description

Bargain hunters looking to secure a great deal should look no further than **DHX Media Ltd.** (TSX:DHX)(NYSE:DHXM) for a stock that's trading very low, and that could have significant upside. Let's take a close look at why the stock is a good bet to rally from the $1.90 that it closed at on Friday.

The company that owns some great children's content, including the Peanuts brand, Strawberry Shortcake, Degrassi and others, has fallen out of favour with investors recently, dropping 20% in just the past month. With the company's Q2 results released in early February, during the past month there were no significant developments surrounding DHX that would have justified such a big sell-off in the share price. And so I suspect that there are a lot of speculators that are driving the share price down, which is trading around 0.8 times its book value.

Why the stock could be due for a rally

There doesn't appear to be a clear catalyst behind DHX's recent price movement, which suggests to me that we'll see a recovery happen at some point. Especially amid markets where we see many high valuations, getting a fair-priced stock is something that isn't always easy. With DHX, investors have an opportunity to buy shares very low in a company that has some strong brands in its portfolio.

Another reason the stock looks to be a good buy is that Friday's 4% decline put the stock into oversold territory. With a **Relative Strength Index** (RSI) of 29 to close out the week, that also suggests that the stock could rally very soon. RSI looks at the gains and losses that a stock has incurred, typically over the past 14 days of trading, and when there's a big imbalance, it's highlighted by either a very high or very low RSI figure. When the RSI dips below 30, it suggests that the stock is oversold, which is what we what we're seeing with DHX.

According to the RSI, the last time the stock was oversold was back in September, when DHX closed at just $1.25. It would go on to double in price within just a few months and would end up hitting over $3.50 before going back on the decline. There's certainly no guarantee that we'll see that happen again, but for stocks that haven't entered oversold territory for a while, I put a lot more credibility in the indicator than when a stock is regularly in and out of oversold territory.

Bottom line

DHX has had some challenging quarters lately, but all it takes is for a strong performance in its next earnings report for the stock to be on a very different trajectory. Investors shouldn't forget that this a company that still has [great growth prospects] that has seen its sales nearly quadruple in just four years.

The past year has been a tough one for the company, as it lost half its value during that time. However, with good assets and a low price, DHX might be worth the risk, as the stock could generate some great returns from its current price point.

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