Better Buy: Amazon vs. Disney

Description

Subscription services have exploded in popularity, infiltrating practically every industry. People can now pay a monthly subscription to gain access to popular services like streaming, gaming, and expedited shipments. Companies that use a subscription model should expect improved client retention, financial forecasting, and cash flow management. It's not unexpected that **Disney** (NYSE:DIS) and **Amazon** (NASDAQ:AMZN) both grew their businesses through subscriptions. Each company's stock has dropped in value over the last year as a result of inflation and a drop in consumer spending.

Despite their share price declines, Disney and Amazon are both excellent long-term investments. However, one is the superior buy in the end. Let's have a look.

Disney is an entertainment industry leader

Disney is much younger in the subscription game than Amazon, but it has significantly altered its company to take advantage of this growth strategy. The company first invested in Hulu in 2009, eventually acquiring a majority share in 2019 through its acquisition of 21st Century Fox. Since then, the company has expanded its subscription business to include its flagship streaming service Disney+ and sports streaming service ESPN+

Disney reached 221 million streaming subscribers across all three platforms in the third quarter of 2022, dethroning **Netflix** with 220.7 million for the first time. The accomplishment highlighted the giant Disney+ has become in fewer than three years of service, with the platform reaching 152.1 million members, accounting for 68.8% of the company's total subscribers.

Furthermore, the business is in the midst of acquiring Comcast's 33% interest in Hulu, the final piece before Disney fully owns the platform. The firm has mentioned several plans for after the acquisition, including integrating its three streaming services into one app and introducing a completely new membership tier now dubbed "Disney Prime," which would combine streaming offers with retail and park services.

Amazon is an e-commerce giant

Amazon began its retail journey by selling music and movies, swiftly expanding to books and hundreds of other things. Today, the company is almost always the first place most customers look when making online purchases.

Amazon expanded its company by introducing its membership service, Amazon Prime, in 2005. The membership has expanded to include expedited delivery for its e-commerce operations, ebooks, music, games, and the popular streaming service Prime Video.

Amazon Prime had 200 million subscribers worldwide as of April 2021, with 50 million added in a single year. As a result, retail sales and Prime subscriptions will account for 87% of Amazon's revenue in 2021. Furthermore, subscription revenue increased 146% between 2019 and 2021 from $12.6 billion to $31.1 billion. It's unknown how much of the online retail sales that Prime members drove, but given the free expedited delivery included in the subscription, they would have undoubtedly propelled a sizable portion of the $222 billion the company's largest division made in 2021.

In addition to Prime, Amazon has taken steps to protect its business in the case of a drop in customer spending through Amazon Web Services (AWS). In 2021, the segment accounted for 13% of the company's revenue but 100% of its operating profits. The cloud service business is expanding and might actually represent the company's future, with 33% year-over-year growth in Amazon's most recent quarter.

Which stock is the better buy?

Amazon and Disney both have bright futures controlling various industries.

However, Disney stock is currently the best value, as its forward price-to-earnings (P/E) ratio is only 18. Meanwhile, Amazon's forward P/E ratio is much higher at 47.

Investors cannot go wrong with either Disney or Amazon in their portfolio, but Disney's current share price provides significantly more value today.

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