# Comparative Analysis of Three Media and Entertainment Companies

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**Abstract.** This research aims to compare the market ratio, market risk, and profitability of three media and entertainment companies: Paramount Global (PARA), Netflix (NFLX), and Tencent Music Entertainment Group (TME). By analyzing these factors, the study seeks to determine the investment preferences of eight different types of investors, including Value, Income, PEG, Index, DCF, Momentum, Insider Buying, and Stock Buyback. According to the analysis in this paper, PARA is the best performer from the perspective of both scale risk and market risk, and NFLX performs the best in the assessment of carrying debt risk. From the perspective of profitability, NFLX is also the most prominent performer. After comprehensive investigation of various Market ratios, NFLX is most likely to be selected by most investors. This valuable information can benefit individual investors, fund managers, and other stakeholders in making investment decisions and optimizing their portfolios. Furthermore, it contributes to the existing body of knowledge on investment strategies in the media and entertainment industry.

**Keywords:** Risk, profitability, market ratio.

## 1. Introduction

Choosing the right assets for investment is crucial, as it directly affects the potential return and risk tolerance of investors. Over the past 20 years, internet technologies have improved communication efficiency and global distribution [1]. This, along with population growth, rising income, and demand for entertainment, makes the media and entertainment industry a valuable investment. Out of this, media and entertainment industry are selected in this research. Three selected companies, namely Paramount Global, Netflix and Tencent Music Entertainment Group, offer distinct investment opportunities within the media and entertainment industry due to their respective strengths. PARA's extensive film catalog and rich history make it a leader in the industry. Netflix's disruptive streaming service and diverse content offerings have transformed the way we consume media. TME's dominance in the Chinese music streaming market showcases its significance in the digital music industry. These companies collectively embody the innovation, success, and market influence that define representative companies in media and entertainment.

## 2. Profile of the selected companies

Paramount Global, Netflix, Inc. and Tencent Music Entertainment Group are well-known companies that focus on digital entertainment and deliver entertainment content to users around the world through the Internet and streaming media technologies. They all have a global user base and market influence and are committed to providing content and services on a global scale. And continuous innovation in technology, continuous development and adoption of new technologies to provide better user experience and increase market competitiveness. They not only have some commonalities in the entertainment and music industries, but also have their own characteristics:

As a large entertainment company, Paramount Global has rich film and television resources and well-known brands and attracts audiences worldwide by producing and distributing entertainment products such as movies, TV series and streaming media content. It is characterized by its cooperation with Hollywood film studios and has a variety of fine content, which is promoted and distributed worldwide. As an important player in the entertainment industry, Paramount Global has extensive influence and position in film and television production, distribution and distribution.

Netflix ranks among the biggest global online streaming platforms, and its stock represents a leader in digital entertainment in the stock market. Netflix, through its subscription model, offers a diverse range of entertainment content. Its internationalization has allowed the company to establish direct customer-to-consumer connections, serving approximately 150 million subscribers worldwide [2]. Netflix’s stock is often seen as a measure of growth and innovation in the digital entertainment industry.

As the largest Internet music entertainment platform in China, Tencent Music Entertainment Group provides users with rich music content and interactive experience through music streaming, online karaoke and other forms. Its significant amounts of data are generated in relation to demographics, music metadata, and user interactions [3]. TME is characterized by cooperation with record companies at home and abroad, has a wide range of music copyright, and is characterized by social interaction and online singing, and has an important position and influence in social interaction and digital music transmission.

## 3. Financial indicators of the companies

The financial indicators and data in this article are from Financial Modeling Prep (financialmodelingprep.com), Yahoo Finance (http://yahoofinance.com), and financial statements for disclosure of these companies by the end of 2023.

### 3.1. Risk

Risk perception plays a vital role in the process of making investment decisions, encompassing the manner in which individuals assess and evaluate the potential risks involved [4]. Risk refers to the chance that an investment or financial decision may not achieve the expected outcome or may result in a loss. It represents the uncertainty or variability of returns associated with an investment or financial instrument. This paper selects three indicators to represent risk.

Market cap, which stands for market capitalization, represents the aggregate value of a company's publicly traded shares on the stock market. According to the study conducted by M.A.M., the number of transactions has a statistically significant impact on market capitalization, dividend yield, earnings per share and price-to-earnings ratio. Beta is a measurement that indicates the sensitivity of a stock or investment to fluctuations in the broader market. It measures the degree of correlation between the price fluctuations of a specific security and the fluctuations of a benchmark index, typically the broader market index like the S&P 500. The Total Debt Ratio, or debt-to-assets ratio, evaluate the proportion of a company's total assets funded by debt. This ratio helps determine the level of leverage or reliance on borrowed funds to support the company's operations and investment activities. This research report presents these three indicators of the selected companies in Table 1.

**Table 1.** Risk

| Risk | Market Cap | Beta | Total Debt Ratio |
|---|---|---|---|
| PARA | 9.734Brillion | 1.86 | 0.463 |
| NFLX | 244.124Billion | 1.28 | 0.433 |
| TME | 16.131Billion | 0.83 | 0.464 |

According to the survey and the table, it can be seen that there is a large gap in the size of the three companies. Among them, Netflix is the largest, while Tencent music entertainment group is the smallest, so the size risk of Netflix is less than that of Paramount global. Tencent music entertainment group is most at risk. According to the beta, the market risk of the three enterprises can be initially judged. The most risky is PARA with a beta of 1.86, while the second largest is NFLX with a beta index of 1.28, and the least risky is TME with a beta of 0.83. Among the three enterprises, TME has the lowest debt ratio of 0.089, while NFLX and PARA have similar debt risks. Comparing NFLX and PARA, the debt risk of NFLX is slightly larger than that of PARA with 0.298 debt ratio.

### 3.2. Profitability

Profitability relates to the capacity of a company or investment to produce favorable financial returns or gains. It measures the validity of an entity in generating earnings relative to its costs, investments, or capital employed. Profit is essential for the sustainability and growth of a business, as it allows for reinvestment [5]. This paper selects four indicators to represent risk.

Total assets turnover, means the capability of a company to generate income from its total assets. This ratio is used to determine whether a company is making good use of its assets to generate sales. Profit margin, also referred to as the net profit margin or net margin, indicates the profitability of a company, or the proportion of each dollar of revenue that the company generates into net profit. Return on Assets (ROA) is a financial metric that measures a company's profitability by assessing its ability to use its assets to generate profits. For another, Return on Equity (ROE) is a financial indicator that evaluates a corporation's profitability. This ratio gauges how effectively a company generates profit from the investments made by its shareholders.

ROE evaluates how efficiently a company generates profits using the funds invested by its shareholders. This research report presents these four indicators of the selected companies in Table 2.

**Table 2.** Profitability

| Profitability | TAT | Profit Margin (year) | ROA | ROE |
|---|---|---|---|---|
| PARA | -0.597 | -3.65% | -2.18% | -5.91% |
| NFLX | 0.557 | 16.04% | 8.93% | 26.15% |
| TME | 0.245 | 16.85% | 4.07% | 9.70% |

Total assets turnover of NFLX is 0.557 which is the greatest one. Total assets turnover of TME is 0.245. Total assets turnover of PARA is -0.597 which is the lowest one. Profit Margin of TME is 16.85% which is the greatest one. Profit Margin of NFLX is 16.04%. Profit Margin of PARA is -3.65% which is the lowest one. ROA of NFLX is 8.93% which is the greatest one. ROA of TME is 4.07%. ROA of PARA is -2.18% which is the lowest one. ROE of NFLX is 26.15% which is the highest one. ROE of TME is 9.70%. ROE of PARA is -5.91% which is the smallest one. Considering the four sets of data, NFLX is the most profitable, TME is slightly less profitable, and PARA is the least profitable.

### 3.3. Market Ratio

Market ratio refers to financial ratio that relate the market value of a company or investment to certain financial metrics. These ratios can help the market assess perceptions of a company's value, performance, or growth potential. This paper conducted analysis by selecting seven market ratios.

P/E, or Price-to-Earnings ratio, evaluates the value of a company's stock compared to its earnings. It makes a comparison between the price per share of a company's stock and the earnings per share (EPS) generated by the company, so even though stock prices reflect a forward-looking perspective as they consider future cash flows, the P/E ratio provides a backward-looking assessment by evaluating recent earnings [6]. P/B, or the Price-to-Book ratio, assesses the market price per share of a company's stock in comparison to its book value per share. Its purpose is to analyze the valuation of a company's stock relative to its net assets. The dividend yield shows the annual dividend paid by a company's stock as a percentage of its current market price. It measures the return in the form of dividends that an investor can expect to receive for each dollar invested in the stock. The Price-to-Earnings Growth ratio, also referred to as the PEG ratio, can be used to represent the relation between a company's current stock price and its earnings growth. Its purpose is to aid investors in evaluating whether the stock is correctly valued given its earnings growth potential. DCF is short for discounted cash flow. It is the value obtained by discounting the future cash flow generated by the business activities of the company [7]. It is generally used to estimate the intrinsic value of an investment, typically a corporation or a project, through the process of discounting, the anticipated future cash flows are converts into their present value. The 200-day MA (Moving Average) and 50-day MA are technical tools employed in financial analysis to monitor the mean price of a security or index within a specified timeframe. MA aid in the identification of patterns, levels of support and resistance, as well as potential signals for buying or selling. This research report presents these seven indicators of the selected companies in Table 3.

**Table 3.** Market Ratio

| Market Ratio | P/E | PB | Dividend yield | PEG | DCF | 200 DAY MA | 50 DAY MA |
|---|---|---|---|---|---|---|---|
| PARA | 11.89 | 0.41 | 4.24% | 0.94 | 108.36 | 14.98 | 14.53 |
| NFLX | 46.74 | 11.83 | 0 | 1.95 | 1205.11 | 421.77 | 485.43 |
| TME | 21.43 | 2.05 | 0 | 1.38 | 10.50 | 7.64 | 8.7 |

## 4. Result for asset selection

In the market, there exists a diverse range of investors, each with their own investment preferences and strategies. Rational investors who engage in investment activities carefully evaluate the risks and potential returns before making decisions in order to maximize their profit potential. Investors are expected to make informed choices in line with their investment objectives and strategies by considering the risk-return tradeoff [8]. Recognizing this, we should recognize the influence of different types of investors on stocks. Specifically, the following eight investor types (Value, Income, PEG, Index, DCF, Momentum, Insider buying, Stock buyback) have been identified as significant in this paper. These investor types can be defined as follows:

Value Investors: These investors seek out stocks that they believe are currently undervalued based on fundamental analysis, with an emphasis on metrics like P/E ratio and P/B ratio. Income Investors: This category of investors focuses on finding stocks that bring about a steady, termly income stream, and they prefer companies with consistent dividend payments and historically high dividend yields. PEG Investors: PEG investors consider the price-to-earnings growth ratio, which combines a corporation's P/E ratio with its estimated rate of growth in earnings. Stocks with low PEG ratios are seen as favorable investments, indicating a potential undervaluation relative to their growth prospects. Index Investors: These investors prefer to invest in funds that track specific market indices, such as the S&P 500 or Nasdaq. Their strategy involves mirroring the overall performance of the index rather than selecting individual stocks. DCF Investors: Investors who utilize discounted cash flow (DCF) analysis to consider forecasted future cash flows. Stocks trading below their estimated intrinsic value are considered attractive investments. Momentum Investors: Momentum investors look for stocks that have shown positive price momentum in recent periods. Their strategy is on account of the belief that strong past performance will continue in the future. Insider Buying: There is a positive correlation between an increase in insider net buying and enhanced operating performance after an event, reduced undervaluation, and lower cost of capital following share repurchases. Furthermore, insider trading can be used as an indicator of the expected announcement returns and long-term abnormal returns after specific events [9]. Stock Buyback: Investors focus on companies that engage in stock buyback programs. These initiatives encompass the repurchase of a company's own shares from the market, which is perceived as a promising outlook for the corporation's future. The allocation of these eight investor types among the three companies, as a reflection of their assets' attractiveness, is as follows:

**Table 4.** Investing Selection

| Types of investors | PARA | NFLX | TME |
|---|---|---|---|
| Value | √ | | √ |
| Income | √ | | |
| PEG | √ | | |
| Index | | √ | |
| DCF | | √ | |
| Momentum | | √ | √ |
| Insider buying | | √ | |
| Stock buyback | | √ | |

PARA attracts Value, Income, and PEG Investors, indicating its potential for undervaluation, stable income, and growth prospects. NFLX appeals to Index, DCF, Momentum, Insider buying, and Stock buyback Investors, demonstrating its market index inclusion, potential cash flow, price momentum, and confidence in future performance. TME draws interest from Value and Momentum Investors, suggesting its potential undervaluation and positive price momentum.

## 5. Conclusion

In the comparative analysis of Paramount Global, Netflix and Tencent Music Entertainment Group, the main conclusions relate to their market risk, debt risk, profitability and investor preferences. PARA performs well in terms of market risk and scale risk, while NFLX is good at managing debt risk and shows superior profitability. Moreover, depending on the market ratio, most investors may prefer NFLX. In further analysis, this paper concludes that PARA attracts value, income and linked investors, NFLX attracts index, DCF, momentum, insider buying and stock buyback investors, and TME attracts the interest of value and momentum investors. These insights help to understand the investment dynamics in the media and entertainment industry and help investors and stakeholders make informed decisions. Driven by technology, revenue growth, and the need for entertainment, this sector offers valuable opportunities. Paramount Global, Netflix and Tencent Music are examples of innovation and success in the industry. Through the analysis of ratio, risk and profitability, investors can improve the investment results in this area.

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