

## Corporate

 Current price **370p**

 Sector **Toys**

 Code **CCT.L**

 AIM **AIM**

### Share Performance



Source: Thomson Reuters, Allenby Capital

### Share Data

 Market Cap (£m) **75.7**

 Shares in issue (m) **21.4**

52 weeks	High	Low
	<b>582</b>	<b>347</b>

 Financial year end **August 31**

Source: Company Data, Allenby Capital

### Key Shareholders

Kiran Shah (Joint MD)	10.1%
Otus Capital Management	6.3%
Jon Diver (Joint MD)]	6.2%
Sweet Briar Investments	6.0%
Ruffer	4.8%

Source: Company Data, Allenby Capital

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## The Character Group (CCT.L)

### Pre-close: Scandinavia disappoints

Disappointing pre-close update for the year ended 31 August with PBT performance expected to be below the lower end of market expectations (ACLe: £124.6m in revenue and £13.5m adj. PBT). The main cause of the miss relates to the failure of the Scandinavian retail market to fully recover from the liquidation in January of Top Toy, historically the largest customer of OVG-Proxy where CCT has a 75% stake. This will result in Proxy making a loss for FY19. CCT has also suffered from the weakening of sterling against the dollar that has impacted gross margins in H2 and this is likely to continue in FY20. On the plus side, the current Peppa Pig licence has been extended by Entertainment One for a further six months to June 2021. Forecasts FY19 and FY20 reduced and we now expect adj. PBT to be essentially flat over the forecast period. We move our fair value to 430p/share (550p/share), equivalent to a 10x PER for FY19 and FY20. Management has committed to the final dividend suggesting an 7.6% FY19 yield.

- Proxy** – CCT acquired an initial 55% stake last October in order to provide additional growth and continued access to EU markets post-Brexit. This stake was increased to 75% in June as part of an agreement to address Proxy's increased working capital requirement. The configuration of that support has been revised with a newly created subsidiary, Character Denmark ApS (CDA), acquiring all of Proxy's inventory and forward purchasing commitments, thereby eliminating Proxy's overdraft. CDA will provide inventory as Proxy receives orders from its customers. Proxy will benefit from CCT's sourcing and purchasing teams but there will be an impact on cash. Management expects Proxy will return to profit in FY20. Top Toy's demise has also created additional distribution opportunities with its former suppliers.
- Peppa Pig extension** – The proposed acquisition of Entertainment One (ETO.L), the owner of the Peppa Pig brand, by Hasbro, has potentially significant medium-term implications for CCT although there have been no discussions with Hasbro to date. As set out in the statement (23.08.19), Hasbro expects to move 'a significant portion of eOne's toy business in-house'. As such, it seems likely that CCT will lose the Peppa Pig and Ben & Holly licences where it has exclusive rights in the UK. CCT has been producing Peppa Pig merchandise for 15 years and it has consistently been CCT's largest brand. It accounted for 26% of revenue by brand in H1 FY19, 21% in FY18 and 23% in FY17 and FY16. Ben & Holly products have been produced for seven years and represents c. 1% of revenue. The six-month extension of the licence to June 2021 means that CCT will get the benefit of Peppa Pig for FY20 and FY21. Management also has 18 months to secure/develop other pre-school brand(s) to fill the gap and has proved its ability in developing successful toy lines with rights holders.

### Year End: August

(£'000)	2018A	2019E (new)	2019E (old)	2020E (new)	2020E (old)
REVENUE	106,216	118,034	124,625	126,250	136,538
ADJ. EBITDA	13,578	13,847	15,757	13,943	17,245
ADJ. PBT	11,606	11,512	13,539	11,595	14,868
ADJ. EPS (p)	45.0	43.0	51.4	42.6	55.6
DPS (p)	23.0	27.0	27.0	31.0	31.0
PER (x)	8.2	8.6		8.7	
Yield (%)	6.2	7.3		8.4	

Allenby Capital acts as Joint Broker to The Character Group (CCT.L).

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