

Corporate

 Current price **380p**

 Sector **Leisure**

 Code **CCT.L**

 AIM **AIM**

Share Performance



	1m	3m	12m
CCT.L	-0.8%	4.1%	-26.5%

Source: Thomson Reuters, Allenby Capital

Share Data

 Market Cap (£m) **81.2**

 Shares in issue (m) **21.4**

52 weeks	High	Low
	582	347

 Financial year end **August 31**

Source: Company Data, Allenby Capital

Key Shareholders

Kiran Shah (Joint MD) 10.1%

Jon Diver (Joint MD)] 6.5%

Otus Capital Management 6.4%

Forager Capital Management 6.3%

Sweet Briar Investments 6.0%

Source: Company Data, Allenby Capital

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The Character Group (CCT.L)

Prelims: Perfect storm but brighter outlook

FY19 proved to be challenging, as flagged in September's pre-close, for the UK's largest independent toy manufacturer. The collapse of Top Toy, historically the largest customer of OVG-Proxy where CCT has a 75% holding, has cast a long shadow over the Scandinavian toy market; sterling's weakness against the dollar has impacted gross margins; and the UK domestic toy market has remained weak. This weakness is likely to continue through this Xmas before picking up in H2. In this situation, the strength of CCT's portfolio of 'ever-green' brands and new products and management's considerable experience is crucial. CCT continued to grow on an organic basis and take market share and remains well funded and offers an attractive income stream. FY20 forecasts remain largely unchanged and we introduce FY21 forecasts that assume a return to higher growth. Fair value moves to 470p from 430p/share.

- FY19 results** – Revenue increased 13.4% to £120.4m (c. +1% organic) and operating profit declined slightly to £11.6m (FY18: £11.7m). Within this, Proxy, where CCT has a 75% holding, contributed c. £13m in revenue and an operating loss of £750k. Gross margin increased 30bps to 34.5% and EBITDA by £132k to £13.7m. Cash conversion continues to be good with operating cash flow of £10.4m (FY18: £14.0m). Net cash fell to £7.8m (FY18: £15.6m), reflecting the Proxy acquisition (£7.7m), dividend paid (£5.3m) and share repurchase programme (£1.3m). The proposed final dividend of 13p means the full year increased 8.3% to 26.0p (ACLE: 27.0p). We expect DPS will be maintained at this level.

- Portfolio performance** – CCT's products continue to show strongly in industry awards. The *Peppa Pig Stage Playset* made the *Dream Dozen* in the UK's Toy Retailers Association's *Dream Toys* list and six others were named in the sector top toys round-up. *Heroes of Goo Jit Zu* has also been nominated *Action Figure of the Year* for the 2020 *Toy of the Year Awards* in the US. *Goo Jit Zu* has performed well since launch and CCT has now secured an EMEA licence from Disney for a range of Marvel characters and management expects significant sales and distribution in >30 territories by year end. CCT has continued to invest in its existing licensed-in brands and new products are scheduled for next year for *Peppa Pig*, *Teletubbies*, *Scooby-Doo*, *Doctor Who* and *Stretch* and is developing a new range of wooden *Peppa Pig* toys.

- Outlook** – The domestic market has been challenging for the past couple of years - management estimates a c. 15% decline, following the failure of TRU and the generally weak retail environment. CCT's continued growth comes through the strength of its 'ever-green' portfolio, investment in new products and international expansion. H1 FY20 is likely to remain be weak before CCT returns to growth in H2 that will continue into FY21.

Year End: August

(£'000)	2017A	2018A	2019A	2020E	2021E)
REVENUE	115,319	106,229	120,416	126,281	135,134
ADJ. EBITDA	17,167	13,578	13,710	13,897	15,161
ADJ. PBT	14,585	11,606	11,065	11,588	12,489
ADJ. EPS (p)	52.0	45.1	43.3	43.5	45.0
DPS (p)	19.0	23.0	26.0	26.0	26.0
PER (x)	8.0	9.2	9.6	9.5	9.2
Yield (%)	4.6%	5.5%	6.3%	6.3%	6.3%

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

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