

Corporate

 Current price **335p**

 Sector **Retailer**

 Code **CCT.L**

 AIM **AIM**

Share Performance



Source: Thomson Reuters, Allenby Capital

Share Data

 Market Cap (£m) **71.3**

 Shares in issue (m) **21.3**

 52 weeks **High** **Low**
582.5p **322p**

 Financial year end **August**

Source: Company Data, Allenby Capital

Key Shareholders

 Kiran Shah (Joint MD) **10.09%**

 Close Bros **7.17%**

 John Diver (Joint MD) **6.47%**

 Otus Capital **6.38%**

 Forager Capital **6.31%**

 Sweet Briar Inv **5.98%**

Source: Company Data, Allenby Capital

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The Character Group plc (CCT.L)

H1 weaker than expected, strong H2 still on track

Character Group has issued an AGM statement highlighting the continuing weakness in the UK toy market and the effect this has had on its trading, particularly over the important Christmas period which will inevitably have an adverse impact on the Group's first half to 29 February 2020. Although we continue to anticipate a substantial rebound in the second half of the financial year, management is of the view that Group PBT for the year will now be lower than consensus at around £10m compared to our forecast of £11.6m. Consequently, we are reducing our PBT forecast for FY2020 by 14% to £10m putting the shares at 335p on a still undemanding PER of 9.0x, falling to 8.5x in FY2021. The Group remains well funded, is cash generative and dividend forecasts are unchanged, thus offering a very attractive, covered, yield. Given the expected strength of H2 trading and a further carry-over into 2021 we retain fair value at 470p.

- UK market weakness continues over the Christmas period** – The Group's AGM statement highlighted the extremely challenging Christmas trading period which followed a second successive year of contraction for the UK toy market. To date The Character Group has been able to deliver sustained growth over much of this period, albeit the weakness began to impact results in H2 FY2019. Having already flagged the likelihood of a difficult first half it is probably no surprise that this has impacted on overall Group forecasts for the current year.
- Much stronger performance expected for H2** – In its outlook statement in the Prelims, management noted that it expected a much stronger H2 with *Goo Jit Zu* and the new *Peppa Pig* wooden range benefitting improving domestic and international sales. The AGM statement reiterated this and added that management anticipated H2 being one of its strongest trading periods to date.
- Forecasts reduced but cash generation remains strong** – Our FY2020 revenue forecasts have been reduced by circa 3% to £123m, which on a retained gross margin results in a PBT lowered from £11.6m to £10m. For FY2021 we feel it prudent to reduce PBT from £12.5m to £11m resulting in EPS of 37.6p and 39.5p respectively.
- Dividend forecast unchanged** – In spite of the profit downgrade we are retaining our dividend expectation at 26p for both FY2020 and 2021 which offers a very attractive yield at the current price of 7.8% which should provide adequate support for the share price. In consequence, we retain our fair value of 470p.

£m				
Year End: August	2018A	2019A	2020E	2021E
REVENUE	106.2	120.4	122.0	131.0
ADJ. EBITDA	13.6	13.7	12.3	13.7
ADJ. PBT	11.6	11.1	10.0	11.0
ADJ. EPS (p)	45.1	43.2	37.6	39.5
NET CASH (£m)	15.6	6.5	8.6	11.5
PER (x)	7.5	7.8	9.0	8.5
Yield	6.9%	7.8%	7.8%	7.8%

Source: The Character Group plc; Allenby Capital

Please refer to the last page of this communication for all required disclosures and risk warnings.

Financial summary

PROFIT & LOSS SUMMARY				
	£m	£m	£m	£m
Y/E August	FY 2018A	FY 2019A	FY 2020E	FY 2021E
Revenue	106.2	120.4	122.0	131.0
Gross profit	36.3	41.6	39.6	42.3
<i>margin</i>	34.2%	34.5%	32.5%	32.3%
Total operating costs	-25.2	-30.2	-29.5	-31.2
<i>as a % of revenue</i>	23.7%	25.1%	24.2%	23.9%
Underlying EBITDA	13.6	13.7	12.3	13.7
<i>margin</i>	12.8%	11.4%	10.1%	10.4%
Underlying Profit before tax	11.6	11.1	10.0	11.0
Net Profit/(Loss)	9.5	9.2	8.0	8.4
Weighted Average Shares	21.07	21.24	21.33	21.33
Weighted Average Shares (fully diluted)	21.40	21.39	21.48	21.48
Underlying EPS (basic) (pence)	45.1	43.2	37.6	39.5
Dividend (p)	23.0	26.0	26.0	26.0
CASH FLOW				
	£m	£m	£m	£m
Y/E August	FY 2018A	FY 2019A	FY 2020E	FY 2021E
Net cash inflow from operating activities	10.7	7.9	10.1	11.0
Net cash outflow from investing activities	-1.9	-11.0	-1.4	-1.5
Net cash inflow/(outflow) from financing activities	-4.5	-6.1	-6.6	-6.6
Cash at end of the year (net of borrowings)	15.6	6.5	8.6	11.5
BALANCE SHEET				
	£m	£m	£m	£m
Y/E August	FY 2018A	FY 2019A	FY 2020E	FY 2021E
Assets				
Non-current assets	6.1	6.3	5.7	4.7
Current assets (excluding cash)	36.6	51.8	54.2	57.3
Cash	34.6	29.0	29.8	32.7
Total Assets	77.4	87.1	89.7	94.7
Liabilities				
Current liabilities	-45.6	-51.7	-63.7	-66.7
Non-current liabilities	0.0	-1.3	0.0	0.0
Total Liabilities	-45.6	-53.0	-63.7	-66.7
Net Assets	31.8	34.1	25.9	27.9
Net current assets	25.6	29.1	20.2	23.3
Net (debt)/cash	15.6	6.5	8.6	11.5

Source: Character Group; Allenby Capital

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