

Corporate

 Current price **376p**

 Sector **Leisure**

 Code **CCT.L**

 AIM **AIM**

Share Performance



Source: Thomson Reuters, Allenby Capital

Share Data

 Market Cap (£m) **80.3**

 Shares in issue (m) **21.4**

52 weeks High Low

430p 194p

 Financial year end **August**

Source: Company Data, Allenby Capital

Key Shareholders

KP Shah (joint MD) 10.13%

Henry Spain Inv. Services 7.27%

Close Bros 7.05%

Forager Capital 7.00%

JJ Diver (joint MD) 6.59%

Sweet Briar Inv. 5.96%

Ruffer LLP 5.11%

Source: Company Data, Allenby Capital

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The Character Group plc (CCT.L)

Results in line, strong start to 2021, earnings upgrade

Prelims show the Group reporting underlying EBITDA of £8.2m and PBT of £5m, in line with our forecasts and following unprecedented challenges of COVID-19 on the supply chain early in the financial year and on high street lockdowns in the latter. Despite these headwinds the Group remained profitable across the year generating exceptionally strong operating cash flow of £17.6m (FY19: £7.8m) and a year-end net cash position of £19.1m (FY19: £6.5m). These results reflected a good level of demand across the Group's diverse toy range, with turnover in the USA increasing and the outlook for the current year is looking extremely positive with a strong Q1 performance. Consequently, we are upgrading our 2021 EBITDA by 34% to £13m, PBT by 50% to £10.5m and EPS by 51% to 37.6p and expect the shares to move ahead.

- A strong set of results in unprecedented trading conditions** – Character Group started the year relatively subdued due to a contracting UK toy market but management expected the second half to deliver one of the strongest performances to date. However, despite an impressive product portfolio that was set to deliver this growth, the coronavirus pandemic brought these aspirations to a halt. As it was, the second half performance did well to match the first and overall the Group reported a 13% reduction in revenue to £105.3m, a 41% reduction in EBITDA to £8.2m and a 55% reduction in PBT to £5.0m.
- Gross margins lower at 28.6%** - Due to a higher incidence of lower margin overseas sales, including a very strong performance from the USA, gross margins were weaker at 28.6% (2019: 34.5%). With an expectation of stronger growth from the UK and flat sales in overseas markets we would anticipate gross margins in the current year to show significant yoy improvement.
- A record cash inflow for 2020** – Of particular note was a record £17.6m operating cash inflow helped in no small part by a £12m reduction in receivables putting the Group in an exceptionally strong year-end financial position of net cash of £19.1m. Cash flow is expected to be strong again in 2021 moving Character up to a net cash position of £30m.
- Strong start to the year** – Management state that the growth anticipated for H2 2020 has merely been deferred into 2021 rather than lost. A strong start to the year with sales already ahead by over 30% would tend to add credence to that assertion.
- Forecasts raised for 2021** – We are very confident that FY21 will revert to strong growth. With a well established and growing product portfolio, including additions to the Peppa Pig and Goo Jit Zu range, we believe that we can raise our forecasts to EBITDA of £13m (from £9.7m), PBT to £10.5m (from £7m) and EPS to 37.6p (from 24.9p). Forecasts for 2022 will be provided when the outlook, post-coronavirus, becomes clearer. We take comfort from the good performance by the Group in 2020 and its ability to bounce back strongly in the current year. The shares offer good value at the current price.

Year End: August

| (£m) | 2019A | 2020A | 2021E | 2022E |
|---------------|-------|-------|-------|-------|
| REVENUE | 120.4 | 105.4 | 125.0 | - |
| ADJ. PBT | 11.1 | 5.0 | 10.5 | - |
| ADJ. EPS (p) | 43.2 | 18.1 | 37.6 | - |
| DIVIDEND (p) | 26.0 | 5.0 | 9.0 | - |
| NET CASH (£m) | 6.5 | 19.1 | 30.0 | - |
| PER (x) | 8.7 | 20.8 | 10.0 | - |
| YIELD | 3.8% | 1.3% | 2.4% | - |

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

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

Financial Summary

| | £m | £m | £m | £m |
|---|--------------|--------------|--------------|--------------|
| Y/E August | FY 2018A | FY 2019A | FY 2020A | FY 2021E |
| PROFIT & LOSS SUMMARY | | | | |
| Revenue | 106.2 | 120.4 | 105.3 | 125.0 |
| Gross profit margin | 34.2% | 34.5% | 28.6% | 32.0% |
| Total operating costs as a % of revenue | -25.2 | -30.2 | -25.3 | -29.7 |
| Underlying EBITDA margin | 23.7% | 25.1% | 24.0% | 23.8% |
| Underlying Profit before tax | 13.6 | 13.7 | 8.2 | 13.0 |
| Net Profit/(Loss) | 12.8% | 11.4% | 7.7% | 10.4% |
| Underlying Profit before tax | 11.6 | 11.1 | 5.0 | 10.5 |
| Net Profit/(Loss) | 9.5 | 9.2 | 3.9 | 8.0 |
| Weighted Average Shares | 21.07 | 21.24 | 21.37 | 21.38 |
| Weighted Average Shares (fully diluted) | 21.40 | 21.39 | 21.38 | 21.38 |
| Underlying EPS (basic) (pence) | 45.1 | 43.2 | 18.1 | 37.6 |
| Dividend (p) | 23.0 | 26.0 | 5.0 | 9.0 |
| PER (x) | 8.3 | 8.7 | 20.7 | 10.0 |
| EV/EBITDA (x) | 4.5 | 5.4 | 7.5 | 4.8 |
| Yield | 6.1% | 6.9% | 1.3% | 2.4% |
| | £m | £m | £m | £m |
| Y/E August | FY 2018A | FY 2019A | FY 2020A | FY 2021E |
| CASH FLOW | | | | |
| Net cash inflow from operating activities | 10.7 | 7.9 | 17.6 | 14.5 |
| Net cash outflow from investing activities | -1.9 | -11.0 | -2.3 | -2.1 |
| Net cash inflow/(outflow) from financing activities | -4.5 | -6.1 | -2.7 | -1.5 |
| Cash at end of the year (net of borrowings) | 15.6 | 6.5 | 19.1 | 30.0 |
| | £m | £m | £m | £m |
| Y/E August | FY 2018A | FY 2019A | FY 2020A | FY 2021E |
| BALANCE SHEET | | | | |
| Assets | | | | |
| Non-current assets | 6.1 | 6.3 | 8.5 | 7.9 |
| Current assets (excluding cash) | 36.6 | 51.8 | 38.1 | 37.7 |
| Cash | 34.6 | 29.0 | 22.3 | 30.0 |
| Total Assets | 77.4 | 87.1 | 68.8 | 75.5 |
| Liabilities | | | | |
| Current liabilities | -45.6 | -51.7 | -33.2 | -32.2 |
| Non-current liabilities | 0.0 | -1.3 | -1.6 | -1.5 |
| Total Liabilities | -45.6 | -53.0 | -34.8 | -33.7 |
| Net Assets | 31.8 | 34.1 | 34.0 | 41.8 |
| Net current assets | 25.6 | 29.1 | 27.1 | 35.5 |

Source: Character; Allenby

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