

Corporate

 Current price **425p**

 Sector **Leisure**

 Code **CCT.L**

 AIM **AIM**

Share Performance



Source: Thomson Reuters, Allenby Capital

Share Data

 Market Cap (£m) **90.9**

 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)

Strong start with sales up over 30% in first 4 months

The Character Group's (Character) AGM statement confirms the strong start to the year noted in its preliminary results. Revenues in the first four months were ahead by more than 30% and management expects that profitability for the first half to February 2021 will be significantly higher than in the same period last year. While there are more challenges facing the Company in the second half, assuming these do not worsen the Board believes the Group will achieve current market expectations. Our forecasts for FY2021 were raised significantly in December and we are encouraged that despite the temporarily deteriorating macros, current market expectations are still valid. When some normality returns to the market Character will be exceptionally well positioned with a strong balance sheet and a product range in strong demand.

- Strong growth expected for the first half** – Character started the year strongly and supported by a buoyant Christmas for the UK toy market which grew by an estimate 5%, Character has shown UK revenue growth of 25% in the first four months of its year. International sales were also strong, particularly to the USA and in consequence overall sales in the first four months were ahead by over 30% yoy.
- Inventory at record low for December** – As a result of the Group's prudent stance to purchases made for the UK market at the beginning of the calendar year, inventory on 31 December 2020 was at its lowest level for over a decade.
- Balance sheet strengthened** – The end of Character's last financial year saw the Group report a cash position, net of invoice discounting, of £19.1m and since then its financial position has strengthened further through the sale of its former over-spill warehousing facility in Oldham for £3.5m cash (ex VAT), the completion of which is scheduled for the end of January. This will produce an exceptional profit of around £2m.
- Significant challenges face the Group in H2** – The new lockdown, further restrictions on trade and logistical difficulties that have seen freight rates from the Far East, at times, quadrupling since September 2020 are creating new challenges for the Group.
- But current market expectations are still valid** - In December, we raised our FY2021 forecasts significantly with EBITDA increased to £13m from £9.7m, PBT to £10.5m from £7m and EPS to 37.6p from 24.9p. While the headwinds noted above are proving a challenge, management believes that assuming no further worsening of conditions the Group will still achieve market expectations. Thus, prospects are still good for a strong FY2021 and once some normality returns to the market, we can be assured that Character will be exceptionally well positioned to exploit the improved macros. Consequently, we believe the shares offer good value at the current price. Forecasts for 2022 will be provided when the outlook, post-coronavirus, becomes clearer.

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)	9.9	23.5	11.3	-
YIELD	6.1%	1.2%	2.1%	-

Source: The Character Group plc, Allenby Capital. 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

INCOME STATEMENT				
	£m	£m	£m	£m
Y/E August	FY 2018A	FY 2019A	FY 2020A	FY 2021E
Revenue	106.2	120.4	105.3	125.0
Gross profit	36.3	41.6	30.2	40.0
margin	34.2%	34.5%	28.6%	32.0%
Total operating costs	-25.2	-30.2	-25.3	-29.7
as a % of revenue	23.7%	25.1%	24.0%	23.8%
Underlying EBITDA	13.6	13.7	8.2	13.0
margin	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)	9.6	9.9	23.5	11.3
EV/EBITDA (x)	5.6	6.2	8.9	4.7
Yield	5.4%	6.1%	1.2%	2.1%
CASH FLOW				
	£m	£m	£m	£m
Y/E August	FY 2018A	FY 2019A	FY 2020A	FY 2021E
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
BALANCE SHEET				
	£m	£m	£m	£m
Y/E August	FY 2018A	FY 2019A	FY 2020A	FY 2021E
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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