

Corporate

 Current price **572.5p**

 Sector **Leisure**

 Code **CCT.L**

 AIM **AIM**

Share Performance



	1m	3m	12m
CCT.L	-16%	-17%	+74%

Source: Thomson Reuters, Allenby Capital

Share Data

 Market Cap (£m) **122.3**

 Shares in issue (m) **21.4**

 52 weeks **High** **Low**
705p **312p**

 Financial year end **August**

Source: Company Data, Allenby Capital

Key Shareholders

Henry Spain Inv. Services 10.26%

KP Shah (joint MD) 10.13%

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)

Logistical challenges lower profit expectations by 8%

The Character Group (Character) has informed the market that while sales and trading remain very strong, the logistical challenges facing many companies in terms of ongoing delays at ports, shipping and container shortages and a rise in freight rates, mean that underlying profits for the year to August 2021 will be slightly lower than market consensus. We have therefore reduced our 2021 PBT forecast by 8% from £12m to £11m. Cash forecasts remain unchanged and on the assumption that this is a challenging but temporary phenomenon, our fair value of 650p on the shares is unchanged.

- Buoyant sales growth in H2** – Thanks to the reopening of the bricks and mortar retail sector in many of the Group’s markets in the second half of the current financial year, Character Group has enjoyed a period of buoyant sales with many brands outperforming management expectations including *Goo Jit Zu*, *Peppa Pig*, *Little Live Pets*, etc.
- Logistical challenges have worsened in H2** – Despite this strong sales performance and in common with many other companies, the Company has continued to face logistical challenges – particularly in the Far East. Ongoing delays at ports, shipping and container shortages, exponential increases in freight rates, and increased costs of inland transportation in China and the UK, coupled with the pressure on the costs of production in China due to higher raw material and labour costs, has had an impact on profitability.
- Little signs of an imminent improvement** – The Board warns that the immediate outlook for an early improvement in supply chain efficiency to ensure timely fulfilment is currently unclear but the Group’s teams in the UK, Scandinavia, Hong Kong and China have reacted positively to the challenges and are seeking to mitigate the effects as far as possible by getting product containers delivered to the Group’s warehouses, and onward deliveries to customers. Because of this proactive approach, there has been limited downside although we will need to adjust our profit forecasts to account for the temporary increase in the cost base.
- 2021 PBT forecasts reduced by 8%** - Management indicates that the Group’s underlying profit before tax for the year ended 31 August 2021 is expected to decrease by no more than 10% of market expectations. Considering this guidance we are reducing our profit expectations for the year to August 2021 by 8%, from £12m to £11m while leaving revenues unchanged. Taking a cautious view of 2022 at this stage, we are reducing underlying profit expectations for that year from £12.55m to £11m and will revisit this forecast following the announcement of preliminary results in early December. Expectations for cash are unchanged and consequently we are still anticipating a very healthy level of cash at the year end of c.£30m, some of which may be utilised in the Group’s proposed tender offer, more of which will be disclosed later in this month. We remain comfortable with our fair value of 650p.

Year End: August				
(£m)	2019A	2020A	2021E	2022E
REVENUE	120.4	105.4	140.0	145.0
ADJ. PBT	11.1	5.0	11.0	11.0
ADJ. EPS (p)	43.2	18.1	39.4	39.5
DIVIDEND (p)	26.0	5.0	15.0	17.0
NET CASH (£m)	6.5	19.1	30.0	35.0
PER (x)	13.2	31.6	14.5	14.5
YIELD	4.5%	0.9%	2.6%	3.0%

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.

Summary financial and forecasts

EXHIBIT 1: SUMMARY FINANCIALS

Y/E August	£m FY 2019A	£m FY 2020A	£m FY 2021E	£m FY 2022E
INCOME STATEMENT				
Revenue	120.4	105.3	140.0	145.0
Gross profit	41.6	30.2	40.4	41.5
<i>margin</i>	34.5%	28.6%	28.9%	28.6%
Total operating costs	-30.2	-25.3	-29.7	-30.7
<i>as a % of revenue</i>	25.1%	24.0%	21.2%	21.1%
Underlying EBITDA	13.7	8.2	13.5	13.4
<i>margin</i>	11.4%	7.7%	9.6%	9.2%
Underlying Profit before tax	11.1	5.0	11.0	11.0
Net Profit/(Loss)	9.2	3.9	8.4	8.4
PER				
Weighted Average Shares	21.24	21.37	21.38	21.33
Weighted Average Shares (fully diluted)	21.39	21.38	21.38	21.38
Underlying EPS (basic) (pence)	43.2	18.1	39.4	39.5
Dividend (p)	26.0	5.0	15.0	17.0
PER	13.2	31.6	14.5	14.5
EV/EBITDA	8.5	12.7	6.8	6.5
Yield	4.5%	0.9%	2.6%	3.0%
CASH FLOW				
Net cash inflow from operating activities	7.9	17.6	14.9	10.0
Net cash outflow from investing activities	-11.0	-2.3	-2.1	-2.2
Net cash inflow/(outflow) from financing activities	-6.1	-2.7	-1.9	-2.9
Cash at end of the year (net of borrowings)	6.5	19.1	30.0	34.9
BALANCE SHEET				
Assets				
Non-current assets	6.3	8.5	7.9	7.7
Current assets (excluding cash)	51.8	38.1	36.5	35.5
Cash	29.0	22.3	30.0	34.9
Total Assets	87.1	68.8	74.4	78.2
Liabilities				
Current liabilities	-51.7	-33.2	-29.0	-27.4
Non-current liabilities	-1.3	-1.6	-1.5	-1.5
Total Liabilities	-53.0	-34.8	-30.5	-28.9
Net Assets	34.1	34.0	43.9	49.2
Net current assets	29.1	27.1	37.6	43.1

Source: Character; Allenby

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