

**CORPORATE**

Current price 477.0p

Sector Toys

Code (CCT.L)

Listing AIM

**SHARE PERFORMANCE**


Source: Thomson Reuters, Allenby Capital

**SHARE DATA**

Market cap £91.95m

Shares in issue 21.14m

52 weeks High Low

572.0p 420.0p

Financial year end 31 August

Source: Company data, Allenby Capital

**KEY SHAREHOLDERS**

Kiran Shah (Joint MD) 10.12%

GLG Partners LLP 7.36%

Otus Capital Management 6.76%

Jon Diver (Joint MD) 6.41%

Sweet Briar Investment Ltd 6.03%

Source: Thomson Reuters

**David Johnson**

+44 (0)20 3328 5663

d.johnson@allenbycapital.com

www.allenbycapital.com

**THE CHARACTER GROUP PLC (CCT.L)**
*FY17 PBT in line but clouds around Toys R Us*

FY17 (August) underlying PBT is expected to be in line with forecasts but the outlook for FY18 is more mixed for the UK's leading independent toy company. The consumer market remains challenging in general and there are specific problems at Toys R Us, a significant customer, that has filed for Chapter 11 voluntary bankruptcy protection in the US with similar protection expected for Canada – the company's other operations are not part of the proceedings. The North American subsidiaries represent a small proportion of CCT revenue (<3%) but in aggregate Toys R Us accounts for c. 8% of group revenue. Toys R Us has said that it will continue to operate as usual as it looks to renegotiate its \$4.9bn debt. That said, credit insurers have reduced available limits since reports of a potential Chapter 11 first emerged last week and suppliers have become more cautious, looking to place stock with other retailers in the run up to the crucial Xmas selling period. This is likely to impact pricing and gross margins. Although the situation is uncertain and it is still very early in CCT's FY18, we believe it is prudent to reduce our FY18 and FY19 revenue and PBT forecasts. We reduce our fair value to 680p (from 700p), equivalent to a FY18 PER of 12.4x and 3.4% yield.

- Renewals and new products:** During H2, CCT announced a three-year extension its *Teletubbies* Master toy licence (July) to 2020, and appointment as the Master toy distributor for the *Pokemon* brand for the UK and Ireland (August). Character's portfolio combines 'ever-green' brands (including *Peppa Pig*, *Little Live Pets*, *Scooby Doo* and *Fireman Sam*) with new brands to maintain momentum. *Peppa Pig* has been the consistent top performer but *Teletubbies* was the third best performer in H1. This Licensed Character business is supplemented by the distribution of third party products. We note that two Character Options products – Laser X and SoundMoovz – have made it into Harrods top 10 Christmas gifts list for 2017.
- Toys R Us:** The debt is a function of its 2005 acquisition by Kohlberg Kravis Roberts, Bain Capital Partners and REIT Vornado Realty Trust for \$6.6bn. The retailer has \$4.9bn in debt, \$400m due in 2018 and \$1.7bn due in 2019. The company has said it will continue to operate as usual from its c. 1,600 Toys R Us and Babies R Us stores across 38 countries and that it has received a commitment from some lenders for >\$3bn in debtor-in-possession financing, subject to court approval. Debt renegotiation would increase the retailer's flexibility as it attempts to carry out its turnaround. The company has been labouring under huge amounts of leverage as well as increased competition from superstores and Amazon.

**EXHIBIT 1: SUMMARY OF FINANCIALS**

Y/E August (£'000)	2016A	2017E	2018E	2019E
REVENUE	120,967	116,128	117,870	126,475
YOY GROWTH	22.1%	-4.0%	1.5%	7.3%
EBITDA	15,731	15,641	15,865	16,829
MARGIN	13.0%	13.5%	13.5%	13.3%
PRE TAX PROFIT	13,132	13,520	13,721	14,578
EPS (BASIC) (P)	50.30	53.20	54.70	58.11
PE / RATIO	9.5	9.0	8.7	8.2
DIVIDEND YIELD	3.1%	4.0%	4.8%	5.7%

Allenby Capital acts as joint broker to The Character Group Plc  
This document should be classified as marketing communication and all required disclosures appear on the last page of the report. This research is intended for UK institutional investors only. It is not intended for retail customers and any retail customers should seek professional, independent advice before investing. Additional information is available upon request.

## DISCLAIMER

This document is issued by Allenby Capital Limited (Incorporated in England No.6706681), which is authorised and regulated in the United Kingdom by the Financial Conduct Authority (“FCA”) for designated investment business, (Reg No. 489795) and is a member of the London Stock Exchange.

This document is for information only and should not be regarded as an offer or solicitation to buy the securities or other instruments mentioned in it. It or any part of it do not form the basis of and should not be relied upon in connection with any contract.

Allenby Capital Limited uses reasonable efforts to obtain information from sources which it believes to be reliable but the contents of this document have been prepared without any substantive analysis being undertaken into the companies concerned or their securities and it has not been independently verified. No representation or warranty, either express or implied, is made nor responsibility of any kind is accepted by Allenby Capital Limited, its directors or employees either as to the accuracy or completeness of any information stated in this document. This document has not been prepared in accordance with legal requirements designed to promote the independence of investment research; and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

Opinions expressed are our current opinions as of the date appearing on this material only. The information and opinions are provided for the benefit of Allenby Capital Limited clients as at the date of this document and are subject to change without notice. There is no regular update series for research issued by Allenby Capital Limited.

No personal recommendation is being made to you; the securities referred to may not be suitable for you and should not be relied upon in substitution for the exercise of independent judgement. Neither past performance nor forecasts are a reliable indication of future performance and investors may realise losses on any investments.

Allenby Capital Limited and any company or persons connected with it (including its officers, directors and employees) may have a position of holding in any investment mentioned in this document or a related investment and may from time to time dispose of any such securities or instrument. Allenby Capital Limited may have been a manager in the underwriting or placement of securities to the issuers of securities mentioned in this document within the last 12 months, or have received compensation for investment banking services from such companies within the last 12 months, or expect to receive or may intend to seek compensation for investment banking services from such companies within the next 3 months. Accordingly recipients of this document should not rely on this document being impartial and information may be known to Allenby Capital Limited or persons connected with it which is not reflected in this material. Allenby Capital Limited has a policy in relation to the management of the firm’s conflicts of interest which is available upon request.

Allenby Capital Limited shall not be liable for any direct or indirect damages, including lost profits arising in any way from the information contained in this material. This material is for the use of intended recipients only and only for distribution to professional and institutional investors, i.e. persons having professional experience in investments who are authorised persons or exempted persons within the meaning of the Financial Services and Markets Act 2000 of the United Kingdom (such persons who do not have professional experience in matters relating to investments should not rely on this material), or persons who have been categorised by Allenby Capital Limited as Professional Clients or Eligible Counterparties. It is not intended for Retail Clients.

This document is being supplied to you solely for your information and may not be reproduced, re-distributed or passed to any other person or published in whole or in part for any purpose. The material in this document is not intended for distribution or use outside the European Economic Area except in the circumstances mentioned below to recipients in the United States. This material is not directed at you if Allenby Capital Limited is prohibited or restricted by any legislation or regulation in any jurisdiction from making it available to you and persons into whose possession this material comes should inform themselves about, and observe, any such restrictions.

Allenby Capital Limited may distribute research in reliance on Rule 15a-6(a)(2) of the Securities and Exchange Act 1934 to persons that are major US Institutional investors, however, transactions in any securities must be effected through a US registered broker-dealer. Any failure to comply with this restriction may constitute a violation of the relevant country’s laws for which Allenby Capital Limited does not accept responsibility.

By accepting this document you agree that you have read the above disclaimer and to be bound by the foregoing limitations / restrictions.

## RESEARCH RECOMMENDATION DISCLOSURE

David Johnson is the author of this research recommendation. David is employed by Allenby Capital Limited as an Equity Analyst.

Tel: 020-3394-2977

Email: d.johnson@allenbycapital.com

Unless otherwise stated the share prices used in this publication are taken at the close of business for the day prior to the date of publication.

\* denotes that Allenby Capital acts as an Adviser to the Company

Information on research methodologies, definitions of research recommendations, and disclosure in relation to interests or conflicts of interests can be found at [www.allenbycapital.com](http://www.allenbycapital.com)

**Allenby Capital**  
**5 St Helen’s Place London EC3A 6AB**  
**+44 (0)20 3328 5656**

[www.allenbycapital.com](http://www.allenbycapital.com)