

CORPORATE

Current price 432.0p

Sector Toys

Code (CCT.L)

Listing AIM

SHARE PERFORMANCE


	1m	3m	12m
CCT.L	(11.8%)	(9.5%)	(4.7%)

Source: Thomson Reuters, Allenby Capital

SHARE DATA

Market cap £91.95m

Shares in issue 21.1m

52 weeks	High	Low
	572.0p	420.0p

Financial year end 31 August

Source: Company data, Allenby Capital

KEY SHAREHOLDERS

Kiran Shah (Joint MD) 10.22%

GLG Partners LLP 7.43%

Otus Capital Management 6.82%

Jon Diver (Joint MD) 6.47%

Sweet Briar Investment Ltd 6.09%

Source: Thomson Reuters

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THE CHARACTER GROUP PLC (CCT.L)
Toys R Us casts a longer shadow

The effects of the Chapter 11 bankruptcy protection filing of Toys R Us in the US and Canada continues to ripple across the global toy industry and cloud the outlook. Combined with a generally challenging consumer backdrop, The Character Group's management expects FY18 will now be significantly below market expectations. We had reduced FY18 and FY19 forecasts at the top and bottom line on the back of the last trading update (20.09.17) but cut numbers further on the back of today's update. We now expect FY18 will fall below FY17 at the top and bottom level before returning to growth in FY19. Management expects cash flow to remain positive, however, and the company has reiterated its commitment to a progressive dividend policy and ongoing share buyback programme – the shares now yield >6% for FY18 following today's price fall. We reduce our fair value to 580p (from 680p), equivalent to a FY18 PER of 13.9x and 4.0% yield. FY17 results are expected during the week commencing 4th December.

— **Toys R Us:** As previously noted, 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 said that it would continue to operate as usual when it announced its Chapter 11 filing in September and has since secured a \$3.1bn debtor-in-possession financing facility to provide working capital and fund various initiatives. That said, credit insurers have maintained reduced available limits and hence suppliers remain nervous. The uncertainty around one of the world's largest toy retailers has meant other retailers are also delaying purchasing decisions as they wait to see how the situation plays out.

— **Strong product portfolio:** CCT's management enters the crucial Xmas selling period with a very strong line up, including several new products developed in-house. These complement CCT's portfolio of 'ever-green' brands (including *Peppa Pig*, *Little Live Pets*, *Scooby Doo* and *Fireman Sam*). In July, CCT announced a three-year extension of its *Teletubbies* Master toy licence to 2020, and its appointment in August as the Master toy distributor for the *Pokemon* brand for the UK and Ireland. Character Options products – such as *Laser X* and *SoundMoovz* – are also featuring in the lists for the most desirable gifts for this Xmas. The business also continues to benefit from a strong balance sheet (H1 net cash was £18.6m). This can be used for share buybacks and the company has purchased a further 50,000 shares today for cancellation.

EXHIBIT 1: SUMMARY OF FINANCIALS

Y/E August (£'000)	2016A	2017E	2018E	2019E
REVENUE	120,967	116,128	107,419	117,946
YOY GROWTH	22.1%	-4.0%	-7.5%	9.8%
EBITDA	15,731	15,641	12,459	14,433
MARGIN	13.0%	13.5%	11.6%	12.2%
PRE TAX PROFIT	13,132	13,520	10,446	12,288
EPS (BASIC) (P)	50.30	53.20	41.32	48.61
PE / RATIO	9.5	9.0	10.4	8.9
DIVIDEND YIELD	3.1%	4.0%	5.3%	6.3%

Allenby Capital acts as joint broker to The Character Group Plc
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RESEARCH RECOMMENDATION DISCLOSURE

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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.

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