

CORPORATE

Current price	495p
Sector	Toys
Code	CCT.L
Listing	AIM

SHARE PERFORMANCE



Source: Fidessa, Allenby Capital

SHARE DATA

Market cap (£)	105.0m	
Shares in issue (m)	21.2	
52 weeks	High	Low
	530	425
Financial year end	August	

Source: Company Data, Allenby Capital

LARGEST SHAREHOLDERS

Kiran Shah (joint MD)	10.08%
Otus Capital Management	6.73%
Jon Diver (joint MD)	6.39%
GLG Partners	6.31%
Sweet Briar Investments	6.01%
Close Asset Management	5.04%

Source: Company Data, Allenby Capital

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THE CHARACTER GROUP (CCT.L)

Prelims: Return to growth in H2

H2 saw a return to the previous growth pattern at The Character Group (CCT.L), the UK's leading independent toy company, as flagged in September's trading update. FY18 revenue of £106.2m (ACLe: £106.7m) represented a 7.9% decline on FY17 but there was a 3.6% increase H2 over H2 and a 10.4% increase on a sequential basis - CCT's domestic business delivered record sales. Underlying PBT was £11.6m (ACLe: £11.1m; FY17: £13.4m). H2 represents a creditable performance compared with CCT's larger competitors - e.g. Hasbro's revenue fell 12% and Mattel by 8% in Q3 - as the industry suffered from the fall out of the liquidation of Toys R Us and the generally difficult retail backdrop. As previously argued, we believe CCT is benefiting from the strength of its portfolio. CCT has seen good demand for its key product ranges throughout the year (*Peppa Pig*, *Little Live Pets*, *Teletubbies* and *Stretch*) complemented by its impulse purchase trend or 'craze' lines e.g. *Soft 'n Slo Squishies*, *Cakepop Cuties* and *Cra.Z.Slimy*. FY19 has started in line with expectation and the outlook is positive for the upcoming Xmas season. FY19 forecasts and 596p fair value, equivalent to a FY19 PER of 11.6x and representing a 20% upside, remain unchanged. CCT remains well capitalised and offers a 5.5% yield.

- **FY18 performance:** A higher proportion of higher margin UK sales, resulted in a 160bps improvement in underlying GM to 34.2% and hence in spite of the 8% reduction in revenue, GP reduced only 3%. Cash from operations was flat at £14.0m. Net cash at year end, post dividends (£4.4m) and share buy-backs (£1.4m), was £15.6m (FY17: £11.5m). FY DPS increased 21% to 23.0p, in line with forecast.
- **PROXY acquisition:** PROXY, where CCT took a 55% stake in October, has secured the exclusive distribution rights for the Nordic region for the Nordic region of the FUNKO range, including its *Fortnite* figurines. There are also opportunities around joint product development and marketing initiatives to increase respective market shares. The acquisition extends CCT's European reach, enables it to offer a broader marketing/distribution proposition for toy companies and brand owners and grow non-UK sales of its own developed product ranges.
- **Outlook:** In the short term, CCT is well set for Xmas 2018, following a good showing in the recent Toy Retailer Association's (TRA) *2018 DreamToys Dream Dozen*. We also expect considerable growth from *Pokémon* during FY19 on the back of *Pokémon: Detective Pikachu*, the first live-action film scheduled for release in May 2019. The official trailer was launched earlier this month and has already been viewed more than 50m times.

Year End: 31 August

(£'000)	2016A	2017A	2018A	2019E	2020E
REVENUE	120,967	115,319	106,216	124,625	136,538
REVENUE GROWTH	22.12%	-4.67%	-7.89%	17.33%	9.56%
ADJ. EBITDA	15,158	17,167	13,578	15,757	17,245
MARGIN	12.5%	14.9%	12.8%	12.6%	12.6%
ADJ. PBT	12,559	14,585	11,606	13,539	14,868
EPS (p)	47.6	57.5	45.0	51.4	55.6
DPS (p)	15.0	19.0	23.0	27.0	31.0
PER (x)	10.4	8.6	11.0	9.6	8.9
YIELD (%)	3.0%	3.8%	4.6%	5.5%	6.3%

Source: Company; Allenby Capital

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