

CORPORATE

 Current price **575p**

 Sector **Toys**

 Code **CCT.L**

 Listing **AIM**
SHARE PERFORMANCE


Source: ThomsonReuters, Allenby Capital

SHARE DATA

 Market cap (£) **121.2m**

 Shares in issue (m) **21.3**

52 weeks High Low

580p 425p

 Financial year end **August**

Source: Company Data, Allenby Capital

LARGEST SHAREHOLDERS

 Kiran Shah (joint MD) **10.13%**

 Otus Capital Management **6.72%**

 Jon Diver (joint MD) **6.50%**

 Sweet Briar Investments **6.00%**

 Ruffer LLP **5.22%**

 Close Asset Management **5.03%**

Source: Company Data, Allenby Capital

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THE CHARACTER GROUP (CCT.L)
Interims: Positive outlook

Solid H1 performance from The Character Group (CCT.L), the largest independent UK-based toy company, with good sell-through during Xmas 2018 against a difficult retail backdrop and the company has started 2019 with stocks well under control and a positive outlook. H1 FY19 included an initial contribution from OVG-PROXY. UK sales saw further growth whilst international sales, excluding the US, remained steady. CCT's US business has yet to recover from the disruption caused by the failure of Toys R Us (TRU). Organic revenue growth was 4.2% as CCT continues to benefit from its balanced portfolio that combines a spine of core brands (*Peppa Pig*, *Little Live Pets*, and *Stretch*) and trend lines e.g. *Soft 'n Slo Squishies*, *Cra.Z.Slimy* and *MightyBeans*. CCT continues to add to its portfolio with own-developed, in-house ranges and via collaboration and distribution agreements, e.g. *Goo Jitsu* and *Stretch* variants. Forecasts unchanged but we increase our fair value to 640p from 596p, equivalent to a FY20 PER of 11.6x and 4.8% yield. The CCT investment case remains underpinned by the balance sheet with net cash of £19.8m and £33.5m of net assets.

- H1 FY19 performance:** Revenue increased 16.5% to £58.8m (+4.2% organically). A higher proportion of higher-margin UK sales and less lower-margin FOB sales resulted in a 160bps improvement in GM to 36.8% (FY18: 34.2%) and GP increased 21.5% to £21.5m. The unwinding of trade and other receivables resulted in cash from operations of £17.0m (H1 FY18 2018: £9.0m; FY18: £14.0m) and net cash at H1, post dividends (£2.5m) and share buy-backs (£0.9m), was £19.8m (H1 FY18: £14.3m; FY18: £15.6m). Management maintains its progressive dividend policy and the interim DPS increased 18% to 13.0p.
- PROXY:** PROXY, where CCT took a 55% stake in October, contributed £6.2m in revenue and £0.4m in operating profit. The business was impacted by the liquidation of Top Toy, one of its largest customers, in January but, similar to the TRU failure in the UK, other retailers are expanding market share. Top Toy's demise has also created distribution opportunities in the Nordic region to former suppliers to Top Toy.
- Outlook:** CCT has developed long term relationships with a range of retailers as a proven supplier of popular products with the necessary agility to capitalise on trends. Its 2019 portfolio has been well received at the international toy fairs (CCT won Supplier of the Year and Craze of the Year at London) and is well represented in forthcoming catalogues. *Pokémon* is also likely to be a significant contributor this year on the back of *Pokémon: Detective Pikachu*, the imminent live-action film.

Year End: 31 August

(£'000)	2016A	2017A	2018A	2019E	2020E
REVENUE	120,967	115,319	106,216	124,625	136,538
REVENUE GROWTH	22.1%	-4.7%	-7.9%	17.3%	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)	12.1	10.0	12.8	11.4	10.4
YIELD	2.6%	3.3%	4.0%	4.7%	5.4%

Source: Company; Allenby Capital

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