

CHINA
DEVELOPMENT
FINANCIAL

Winking Studios Limited

(WKS SP/WKS.SI)

Growth through acquisition

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- Continued M&A strategy to drive inorganic growth.** Since its IPO, Winking Studios has strategically expanded its presence in Asia through the acquisition of two art outsourcing studios in Taiwan and Malaysia. This aligns with the company's broader strategy of utilizing mergers and acquisitions to strengthen its position as a market leader in the art outsourcing industry. Its successful placement of new shares further supports its ongoing efforts to grow its market position through strategic acquisitions.
- Organic growth in the Japanese market.** 1H24 revenue grew 7.1% YoY to US\$15.2mn from US\$14.2mn in 1H23, driven by a surge in orders from both its Art Outsourcing and Game Development segments. Notably, the company's business development efforts in Japan have yielded significant results, with revenue from this region increasing nearly threefold to US\$1.5mn in the Art Outsourcing segment. This growth has contributed to a more balanced geographical revenue mix, strengthening the company's resilience against potential economic fluctuations.
- Strategic dual-listing on the London Stock Exchange (LSE).** Winking Studios is currently pursuing a dual-listing on LSE, which would provide several advantages. Fungible share transfers between the Singapore Exchange (SGX) and LSE would offer greater flexibility for shareholders in both markets. This could potentially increase trading volume and enhance market liquidity.
- We reiterate our **OUTPERFORM** recommendation and a revised target price of **S\$0.35** based on a DCF valuation method.

Financials & Key Operating Statistics					
YE Dec (USD' 000)	2022	2023	2024F	2025F	2026F
Revenue	24,498	29,281	32,931	46,103	50,344
PATMI	1,037	1,780	65	904	1,986
EPS (USD)	0.005	0.007	0.000	0.003	0.006
EPS growth (%)	-	55.9	(97.5)	1,293.2	119.7
DPS (Sing cents)	-	0.5	-	-	-
Div Yield (Y%)	0.0%	1.7%	0.0%	0.5%	1.1%
Net Profit Margin (%)	4.2%	6.1%	0.2%	2.0%	3.9%
Net Gearing (%)	N/A	N/A	N/A	N/A	N/A
Price P/B (x)	-	2.80	2.08	2.03	1.94
ROE (%)	9.3%	8.3%	0.2%	2.2%	4.6%

Source: Company data, KGI Research

1H24 financial review: Winking Studios' revenue grew by 7.1% YoY in 1H24, reaching US\$15.23mn. The increase was primarily driven by growth in the Art Outsourcing Segment by 6.6%, US\$0.79mn to US\$12.63mn and Game Development Segment by 8.1%, US\$0.19mn to US\$2.49mn. There was a slight decline in gross profit to US\$4.24mn from US\$4.37mn in the previous year, due to the acquisition of two art studios, which resulted in deferred projects and lower efficiency during the initial integration period. Excluding these factors, gross margin remained relatively

Outperform - Company Update		
Price as of 23 Aug 24 (SGD)	0.29	Performance (Absolute)
12M TP (\$)	0.35	
Previous TP (\$)	0.34	
Upside (%)	21.4	
Trading data		Perf. vs STI Index (Red)
Mkt Cap (\$mn)	112	
Issued Shares (mn)	388	
Vol - 3M Daily avg (mn)	0.2	
Val - 3M Daily avg (\$mn)	0.0	
Free Float (%)	33.6%	
Major Shareholders		Previous Recommendations
Acer Gaming	51.0%	
Cho Tai Wei	9.1%	
Acer Softcapital Inc	8.6%	

stable at 30.0%. Overall, Profit before tax decreased by 23.7% to US\$1.007mn, with the aforementioned acquisitions, increased marketing & promotional expenses, and ongoing listing expenses, contributing to this decline.

Figure 1: Revenue growth by business segments

Revenue by segment			
(USD' 000)	1H23	1H24	YoY change
Art outsourcing	11,845	12,631	6.6%
Game development	2,308	2,495	8.1%
Global publishing & other services	57	99	73.7%
Total revenue	14,210	15,225	7.1%

Source: Company, KGI Research

APAC art outsourcing market is experiencing rapid growth. Driven by the increasing demand for cost-effective, high-quality solutions from game development companies. The market is projected to reach US\$4.5bn by 2027, with a CAGR of 14.4%. Additionally, as gaming hardware supplies improve and game launch delays shorten, the overall gaming market is expected to grow to US\$317.6bn by 2027. Winking Studios is well-positioned to capitalize on this expansion, thanks to its strong financial performance and strategic focus on the gaming industry.

Valuation & Action: We recommend an **OUTPERFORM** rating for Winking Studios with a revised target price of **S\$0.35**, based on a DCF analysis. This valuation incorporates a terminal growth rate of 2.0% and a cost of equity of 11.9%. As Winking Studios continues to expand its art outsourcing segment and drive sales through its business development efforts, we expect sustained revenue growth to support this positive outlook.

Risks: Exposure to currency fluctuations due to denomination in USD, margin pressure due to competition and lower-than-expected new order wins.

Inorganic growth strategy. Winking Studios' inorganic growth strategy focuses on strategic acquisitions to expand its market reach and service offerings. The company has successfully acquired two art outsourcing studios in Taiwan and Malaysia, demonstrating its commitment to growth through mergers and acquisitions. These acquisitions align with Winking Studios' broader strategy of strengthening its position as a leading player in the art outsourcing market. By leveraging the expertise and resources of these acquired studios, Winking Studios aims to enhance its ability to serve a wider range of clients and deliver high-quality gaming services.

Completed acquisitions:

1. **Taipei, Taiwan** - On 1 April 2024, Winking Studios acquired 100% of the issued share capital in On Point Creative Co., Ltd., a company mainly engaged in the provision of art outsourcing services, for cash consideration of NTD 59,900,000 (approximately US\$1,873,925).
2. **Kuala Lumpur, Malaysia** - On 28 June 2024, the Company acquired the business of Pixelline Production Sdn. Bhd., for an aggregate purchase consideration of up to US\$1,000,000.

Winking Studios is well-positioned to capitalize on this growth. The Group plans to continue its mergers and acquisitions strategy to strengthen its market position and expand its global reach. With a strong focus on games with online connectivity, Winking Studios expects a robust project pipeline in the second half of 2024, based on indicative bookings of at least US\$10.1 million as of 13 August 2024.

Figure 2: List of subsidiaries held by the Group

No.	Date of acquisition	Name of subsidiaries	Country of incorporation	Principal activities	Effective interest
Directly held					
1	Held prior to listing	Shanghai Winking Entertainment Limited	People's Republic of China	Investment Holding, Art Outsourcing and Game Development	100%
2		Winking Art Pte. Ltd.	Singapore	Headquarter and Art Outsourcing	100%
3		Winking Entertainment Corporation	Taiwan	Art Outsourcing and Game Development	100%
4		Winking Skywalker Entertainment Ltd.	Hong Kong	Global Publishing	100%
5	1 April 2024	On Point Creative Co. Ltd.	Taiwan	Art Outsourcing	100%
6	28 June 2024	Pixelline Art Sdn. Bhd.	Malaysia	Art Outsourcing	100%
Indirectly held					
1	Held prior to listing	Nanjing Winking Entertainment Limited	People's Republic of China	Art Outsourcing	100%
2		Shanghai Wishing Entertainment Ltd.	People's Republic of China	Art Outsourcing and Game Development	100%
3		Winking Art Limited	Hong Kong	Art Outsourcing	100%

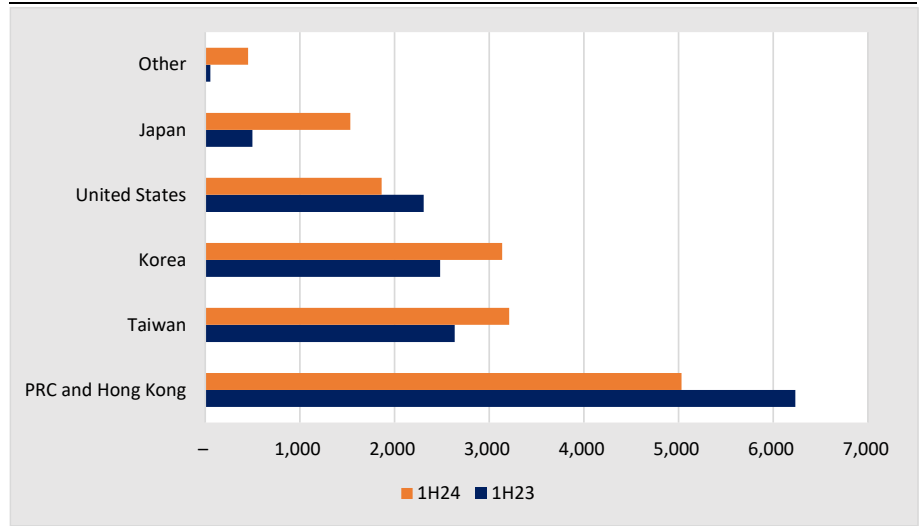
Source: Company, KGI Research

Organic growth strategy. Winking Studios' organic growth strategy is focused on enhancing its operational efficiency, expanding its service offerings, and strengthening its relationships with existing clients. By optimizing its production processes and leveraging advanced technologies, the company aims to reduce costs and improve turnaround times. Additionally, Winking Studios plans to broaden its service portfolio by venturing into emerging sectors within the gaming industry, such as virtual reality and augmented reality development. To fuel further expansion, Winking Studios is exploring the integration of AI capabilities in its art outsourcing segment. By leveraging AI-powered tools, the company can automate certain tasks, improve efficiency, and enhance the quality of its output. By deepening its relationships with existing clients and providing comprehensive solutions, Winking Studios seeks to increase customer satisfaction and secure long-term partnerships.

To further drive growth, the company is also investing in business development and marketing efforts. Through the expansion of its sales and marketing teams and the reinforcement of its brand presence, Winking Studios aims to enhance customer acquisition and retention. Additionally, Winking Studios is broadening its global operations by establishing subsidiaries and offices in key markets, as well as enhancing existing office facilities and supporting infrastructure. By extending its geographic reach, Winking Studios aims to better cater to clients worldwide and seize new market opportunities.

The Group's commitment to delivering high-quality and cost-effective gaming services will be crucial in maintaining its competitive advantage. By focusing on project management and execution, Winking Studios aims to continue providing exceptional value to its customers.

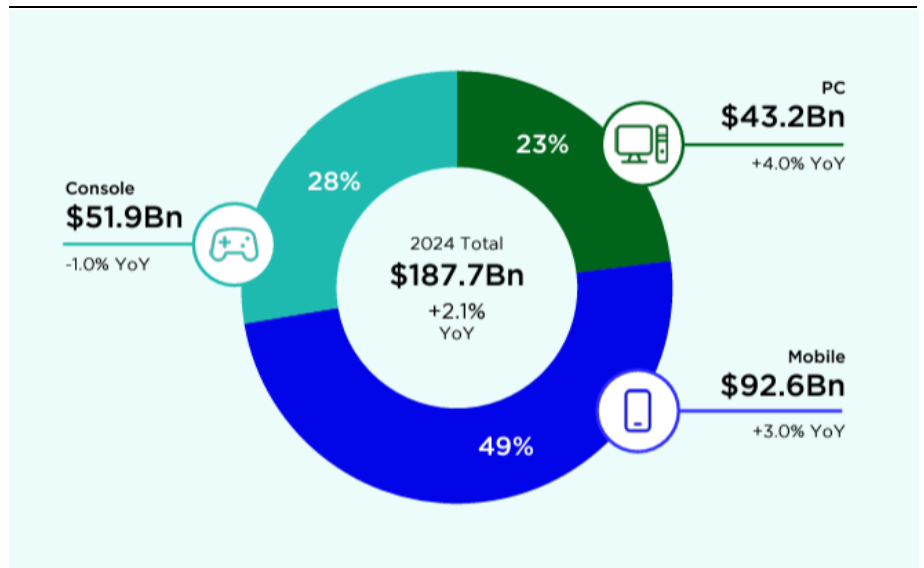
Figure 3: Revenue growth by geographical segment



Source: Company, KGI Research

Global gaming and art outsourcing market to continue growth. The global gaming and art outsourcing market is poised for continued growth, driven by the increasing demand for high-quality gaming content and the outsourcing of artistic services. According to Newzoo, in 2024, the global games market is expected to generate US\$187.7bn, a 2.1% YoY growth, with the number of global players reaching 3.42bn, a 4.5% increase from the previous year. The rise of PC gaming, with revenues expected to grow by 4.0% YoY to US\$43.2bn, along with the growth in mobile gaming (up 3.0% to US\$92.6bn), underscores the growing demand for diverse and immersive gaming experiences.

Figure 4: 2024 game revenue by segment

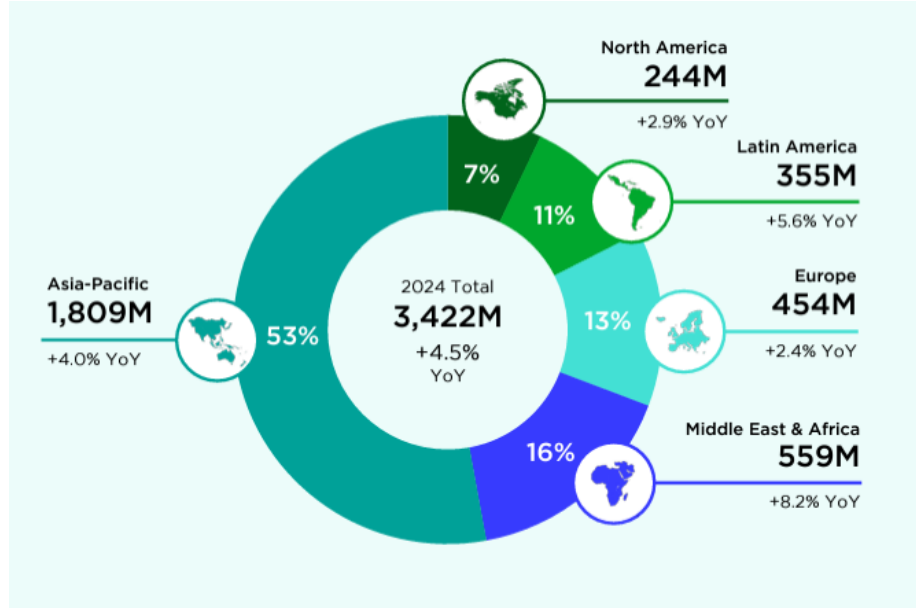


Source: Newzoo

As developers strive to create more engaging and visually stunning games, the need for skilled artists and outsourcing partners has become increasingly essential. This is particularly true in regions like Asia-Pacific, which will see its player base grow by 4.0% YoY to 1.8bn players, driving demand for localized and culturally relevant

content. The global gaming industry's CAGR of 3.1% from 2022 to 2027 further highlights the sustained expansion, reaching an anticipated US\$213.3bn by 2027. This continued growth presents significant opportunities for companies like Winking Studios to thrive in the gaming and art outsourcing market, catering to the evolving needs of developers and players alike.

Figure 5: 2024 global players by region



Source: Newzoo

Industry breaking news

The resounding success of Black Myth: Wukong is poised to catalyse a shift in the Chinese gaming industry to invest in AAA game development. As the game's global acclaim coupled with its impressive sales figures (as of 23 August, over 10 million copies sold and a peak online player count of 3 million), demonstrates the potential for high-quality, home-grown AAA titles, more studios are likely to invest in ambitious projects, seeking to capitalize on the growing demand for immersive, high-budget games. This trend will drive demand for art outsourcing services, positioning Winking Studios as a key partner for studios seeking visually stunning and technically sophisticated games. As more studios pursue ambitious AAA projects, the demand for skilled artists and designers will rise, creating more opportunities for Winking Studios to collaborate with gaming companies and secure new projects, ultimately boosting growth and profitability.

Valuation

We recommend an **OUTPERFORM** rating for Winking Studios, with a revised target price of **S\$0.35** per share post-full dilution, derived through a Discounted Cash Flow (DCF) analysis. Our valuation is based on conservative assumptions, including a cost of equity of 11.9% and a terminal growth rate of 2.0%. With the gaming market expected to grow across various regions and Winking's strategic inorganic expansion plans, the company is well-positioned to increase its market share, driving both top-line and bottom-line growth. Furthermore, Winking's ability to leverage its cost-effective workforce will support margin maintenance and net profit enhancement.

Adjusted Cost Considerations

To accurately assess Winking Studio's financial trajectory, it is essential to consider the impact of certain costs. These include the costs associated with the company's performance share plan and upcoming listing costs related to the planned dual listing on the London Stock Exchange. These adjustments provide a clearer picture of the company's underlying growth potential.

Key Catalysts

1. Strong 2H24 Pipeline: Winking Studios has secured at least US\$10.1mn in bookings to be fulfilled by end-2024, indicating strong revenue momentum.
2. Dual Listing on the London Stock Exchange (LSE): A successful dual listing on the LSE would lead to an expansion of Winking's investor base.
3. Future Acquisitions: With S\$26.5mn raised from its recent placement, Winking is set for further growth from new acquisitions, potentially boosting future revenue.

This comprehensive strategy, combined with the company's strategic growth initiatives and strong support from its controlling shareholder, underscores our confidence in Winking's ability to deliver sustained value to shareholders.

Figure 6: DCF model

Valuation	2024F	2025F	2026F	2027F	2028F
Unlevered Free Cash Flow		Y1	Y2	Y3	Y4
EBIT	184	1,552	2,920	5,014	6,052
Add: Performance share plan	500	500	500	500	500
Add: LSE dual listing expense	2,000	–	–	–	–
Adjusted EBIT	2,684	2,052	3,420	5,514	6,552
Tax rate	17%	17%	17%	17%	17%
Adjusted EBIT * (1-t)	2,228	1,703	2,839	4,577	5,438
Add: Depreciation and Amortisation	2,188	3,379	3,708	4,037	4,276
Less: Increase working capital	(919)	71	805	(305)	(216)
Less: Capex	(988)	(1,383)	(1,510)	(1,661)	(1,821)
Unlevered Free Cash Flow	2,509	3,770	5,841	6,647	7,678
Terminal value					50,108
Discounted value	2,509	3,368	4,660	4,738	4,888
Total enterprise value	70,271				
FY2024 Debt	–				
FY2024 Cash	30,867				
Equity value/market capitalisation	101,139				
Before dilution					
Target share price (USD)	0.362				
Target share price (SGD)	0.488				
After dilution*					
Target share price (USD)	0.261				
Target share price (SGD)	0.352				
Current share price	0.290				
Upside/(Downside) %	21.4%				

*Full dilution after the completion of placement on 8 July 2024 of 108,000,000 new ordinary shares.

Source: KGI Research

Financials

FYE 31 December					
INCOME STATEMENT (USD' 000)	2022	2023	2024F	2025F	2026F
Revenues	24,498.0	29,281.0	32,930.7	46,102.9	50,344.4
Cost of sales	(18,050.0)	(19,947.0)	(23,710.1)	(32,041.5)	(34,989.4)
Gross profit	6,448.0	9,334.0	9,220.6	14,061.4	15,355.0
Other operating income	146.0	124.0	382.0	355.3	330.4
Other losses - net	(120.0)	13.0	(65.9)	(92.2)	(100.7)
Distribution and marketing	(1,013.0)	(1,548.0)	(2,305.1)	(3,227.2)	(3,020.7)
Administrative expenses	(4,603.0)	(6,368.0)	(7,113.0)	(9,637.5)	(9,744.8)
Expected credit gains/(losses)	(32.0)	(111.0)	65.9	92.2	100.7
Profit from operation	826.0	1,444.0	184.4	1,552.0	2,920.0
Interest income	9.0	68.0	164.7	230.5	251.7
Finance expenses	(60.0)	(89.0)	(117.4)	(250.5)	(334.7)
Net finance (expense)/income	(51.0)	(21.0)	47.3	(19.9)	(83.0)
Profit before income tax	775.0	1,423.0	231.7	1,532.0	2,837.0
Income tax (expense)/credit	262.0	357.0	(166.8)	(628.1)	(851.1)
Profit	1,037.0	1,780.0	64.9	903.9	1,985.9
BALANCE SHEET (USD' 000)	2022	2023	2024F	2025F	2026F
Cash and cash equivalents	6,057.0	16,423.0	30,867.5	30,869.5	34,316.1
Other current assets	6,679.0	7,345.0	9,578.7	11,888.8	11,925.3
Total current assets	12,736.0	23,768.0	40,446.2	42,758.3	46,241.5
Property, plant and equipment	2,307.0	2,255.0	2,434.4	2,564.3	2,626.7
Intangible assets	243.0	203.0	137.4	39.6	(60.3)
Other non-current assets	4,198.0	4,277.0	9,050.5	14,791.7	17,210.4
Total non-current assets	6,748.0	6,735.0	11,622.3	17,395.5	19,776.8
Total assets	19,484.0	30,503.0	52,068.5	60,153.8	66,018.3
Trade and other payables	4,504.0	5,402.0	6,644.1	8,978.8	9,804.9
Loans and contract liabilities	137.0	44.0	116.8	163.5	178.6
Other current liabilities	920.0	993.0	989.2	1,560.8	3,259.6
Total current liabilities	5,561.0	6,439.0	7,750.2	10,703.1	13,243.0
Lease liabilities	1,901.0	1,687.0	3,305.8	7,534.3	8,872.9
Other non-current liabilities	892.0	930.0	930.0	930.0	930.0
Total non-current liabilities	2,793.0	2,617.0	4,235.8	8,464.3	9,802.9
Total liabilities	8,354.0	9,056.0	11,986.0	19,167.4	23,046.0
Unitholders' funds and reserves	11,130.0	21,447.0	40,082.5	40,986.4	42,972.3
Total liabilities and equity	19,484.0	30,503.0	52,068.5	60,153.8	66,018.3
CASH FLOW STATEMENT (USD' 000)	2022	2023	2024F	2025F	2026F
Profit before tax	775.0	1,423.0	231.7	1,532.0	2,837.0
Adjustments	1,524.0	2,009.0	2,188.1	3,378.7	3,708.1
Operating cash flows before WC changes	2,299.0	3,432.0	2,419.8	4,910.7	6,545.1
Change in working capital	(314.0)	(10.0)	(918.7)	71.3	804.6
Interest received	9.0	68.0	-	-	-
Income tax paid	(15.0)	(21.0)	(166.8)	(628.1)	(851.1)
Cash flows from operations	1,979.0	3,469.0	1,334.2	4,353.9	6,498.6
Additions to property, plant and equipment	(1,601.0)	(630.0)	(987.9)	(1,383.1)	(1,510.3)
Others	(145.0)	89.0	(3,542.5)	(2,042.6)	(43.8)
Cash flows from investing	(1,746.0)	(541.0)	(4,530.4)	(3,425.7)	(1,554.2)
Proceeds from share issuance, net of share issue exp	-	8,613.0	19,629.6	-	-
Cash capital increase	-	-	-	-	-
Principal payments of lease liabilities	(790.0)	(1,031.0)	(930.0)	(926.2)	(1,497.8)
Interest paid	(60.0)	(89.0)	-	-	-
Other financing cashflow	-	-	-	-	-
Cash flows from financing	(850.0)	7,493.0	18,699.6	(926.2)	(1,497.8)
FX Effects, Others	(604.0)	(55.0)	-	-	-
Net increase/(decrease) in cash	(1,221.0)	10,366.0	15,503.5	2.0	3,446.6
Beginning Cash	7,278.0	6,057.0	16,423.0	30,867.5	30,869.5
Ending cash	6,057.0	16,423.0	31,926.5	30,869.5	34,316.1
KEY RATIOS	2022	2023	2024F	2025F	2026F
DPS (SGD cents)	N/A	0.50	-	-	-
Dividend yield (%)	N/A	1.7	0.0	0.5	1.1
NAV per share (SGD cents)	N/A	10.4	14.0	14.3	15.0
Price/NAV (x)					
Profitability					
EBITDA Margin (%)	9.3	11.3	7.7	11.2	13.7
Net Margin (%)	4.2	6.1	0.2	2.0	3.9
ROE (ex. Property FV gain) (%)	N/A	8.3	0.2	2.2	4.6
ROA (ex. Property FV gain) (%)	N/A	5.8	0.1	1.5	3.0
Financial Structure					
Interest Coverage Ratio (x)	13.8	16.2	1.6	6.2	8.7
Gearing Ratio (%)	N/A	N/A	N/A	N/A	N/A

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