

Winking Studios Limited

13 Jan 2024

Non-Rated

BBG	WKS SP	
Market Cap	S\$127.7m	
Price (13 Jan 2024)	S\$0.29	
52-week range	S\$0.196 - 0.335	
Shares Outstanding	440.4m	
Free Float	23.7%	
Major Shareholder	Acer Gaming Inc	57.4%
	Acer SoftCapital Incorporated	6.8%
	Jan Cheng Han	5.5%
	Flying Way International Corp	5.2%

Source: Company Data, Bloomberg, SAC Capital



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KEY FINANCIAL HIGHLIGHTS

Year ended Dec (US\$'m)	FY21	FY22	FY23	1H23	1H24
Revenue	23.7	24.5	29.3	14.2	15.2
EBIT	3.0	0.8	1.4	1.3	0.9
Net profit	3.2	1.0	1.8	1.3	0.9
EPS (US\$ cents)	1.0	0.5	0.7	0.5	0.3
Dividend per share (S\$ cents)	-	-	0.5	-	-
Net cash / (debt)	7.3	6.1	16.4	-*	11.6
Valuation					
Gross profit margin (%)	33%	26%	32%	31%	28%
Net profit margin (%)	13%	4%	6%	9%	6%
Adjusted EV/EBITDA (x)	13.0	21.0	8.1	-*	21.6
P/E (x)	21.2	42.3	30.2	21.2	35.3
P/B (x)	4.3	4.2	2.4	-*	2.8
Dividend yield (%)	-	-	2%	-	-
ROE (%)	29%	9%	8%	-*	4%

*Limited public financial information for 1H23

Riding the Wave of Global Gaming

Winking Studios Limited. Winking Studios is the third largest art outsourcing studio in Asia and the fourth largest in the world. The company provides a range of services including 2D and 3D modeling, game development, and animation, servicing renowned game developers such as Ubisoft, Tencent, and NetEase. With operations across Asia and a growing global footprint, Winking's focus on high-quality digital art assets and development services positions it to benefit from the increasing demand for outsourced game art services.

Financial performance. In 1H2024, Winking reported revenue of US\$15.2m, reflecting a 7.1% yoy growth. This was primarily driven by strong contributions from the Art Outsourcing and Game Development segments, with new contracts in Japan and South Korea. Gross profit decreased slightly by 2.8% yoy to US\$4.2m, with gross profit margin decreasing from 30.7% to 27.9%. This was mainly impacted by the deferral of various projects to 2H2024 due to customers' requirements and the integration of newly acquired studios. Excluding these integration effects, gross margin remained stable at 30.0%. Net profit fell by 28.0% yoy to US\$0.9m, impacted by increased marketing and promotional expenses, along with ongoing listing expenses. Adjusted for one-off expenses, the Group's adjusted net profit stood at US\$1.2m, a decrease of 34.1% yoy. As of 30 June 2024, Winking is in a net cash position of US\$11.6m in cash and no borrowings, representing approximately 10% of its market capitalization.

Investment Thesis 1) Inorganic Growth. Beyond organic growth driven by Winking's training and hiring efforts, acquisitions are a key growth driver. Since its IPO, the company has expanded geographically and boosted client capacity with the acquisitions of On Point Creative in Taiwan and Pixelline Production in Malaysia. In July 2024, the company raised S\$26.5m through a placement, which will be allocated primarily for strategic acquisitions.

2) Dual Listing on London Stock Exchange. Winking's dual listing on the LSE will provide Winking exposure to a broader investor base, further supporting Winking's future growth plans. We anticipate acquisitions to follow.

3) Backing by Acer Group. Acer Group's majority stake of 64.2% in Winking Studios not only strengthens Winking's operational capabilities but also opens doors to Acer's extensive network in the global gaming and art outsourcing industries. Leveraging Acer's resources, Winking collaborates on innovative projects such as AI-driven 3D animation software and the conversion of classic titles for Acer's True Game platform. This synergy positions Winking as a growth leader in the rapidly expanding gaming

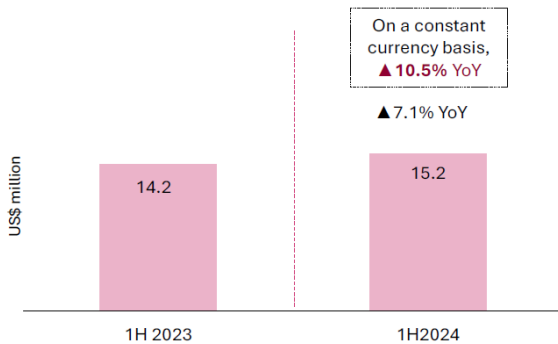
sector, enhancing its scalability and market penetration across developed and emerging markets

Market outlook. According to an independent market report by China Insights Industry Consultancy Limited, the global gaming market is projected to grow at a compounded annual growth rate (CAGR) of 8.9%, reaching US\$317.6b by 2027, driven by increasing popularity of online games, esports and immersive gaming experiences. The demand for outsourcing art services is projected to grow at a CAGR of 13.4%, reaching US\$6.3b by 2027. As one of the largest game art outsourcing companies, Winking is well-positioned to capture this growth.

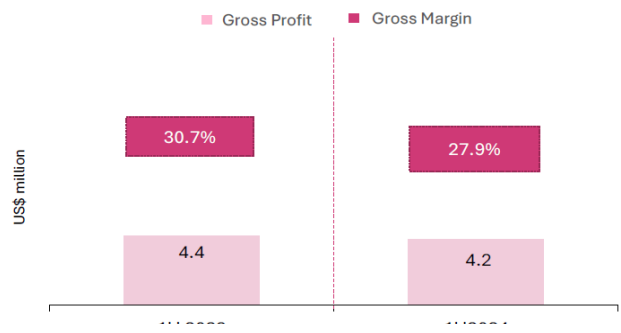
Risks. A significant portion of Winking's revenue is denominated in various currencies, making the company vulnerable to exchange rate fluctuations, potentially impacting profitability. Additionally, the company's aggressive acquisition strategy poses integration risks, particularly in maintaining operational efficiency and preserving profit margins during the initial stages of mergers.

Optimistic Outlook – Winking's Studios growth trajectory is supported by a robust acquisition pipeline, enhanced by funds raising through the recent placement and anticipated benefits from the dual listing. With the company's strong financial position and focus on expanding its global footprint, we are optimistic on the company.

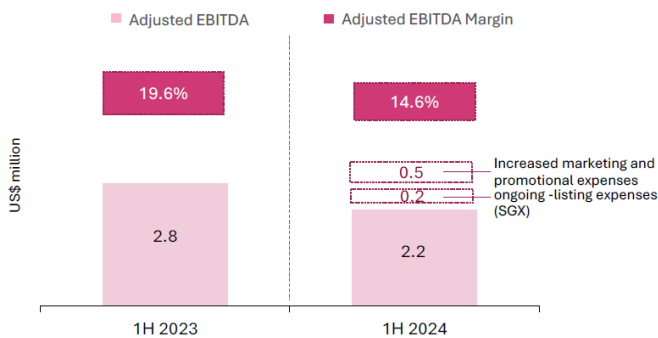
Revenue



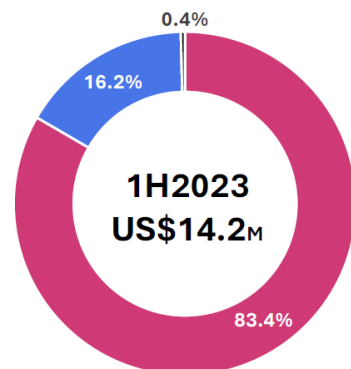
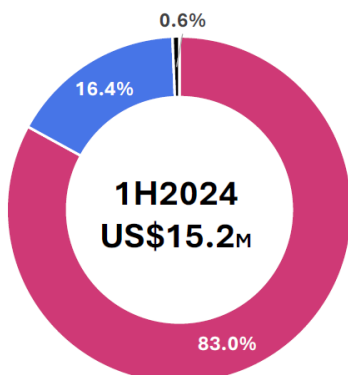
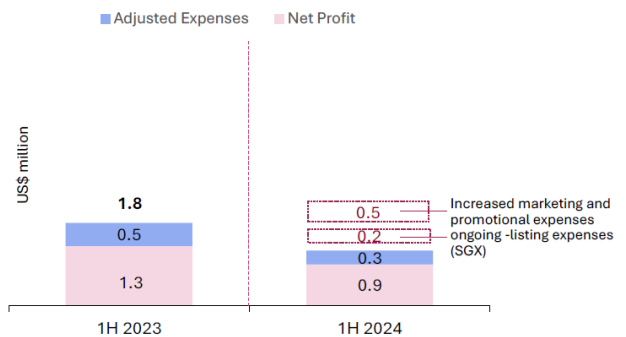
Gross Profit/ Gross Margin



Adjusted EBITDA



Adjusted Net Profit



Income Statement

FYE Dec (US\$'m)	FY21	FY22	FY23	1H23	1H24
Revenue	23.7	24.5	29.3	14.2	15.2
Cost of sales	(16.0)	(18.1)	(19.9)	(9.8)	(11.0)
Gross profit	7.7	6.4	9.3	4.4	4.2
Other income	0.2	0.1	0.1	0.1	0.4
Other gains/(losses) – net	(0.3)	(0.1)	0.0	0.1	(0.0)
Distribution and marketing	(0.8)	(1.0)	(1.5)	(0.5)	(1.0)
Administrative expenses	(3.7)	(4.6)	(6.4)	(2.5)	(2.7)
Expected credit losses	(0.0)	(0.0)	(0.1)	(0.1)	0.1
Interest income	0.0	0.0	0.1	0.0	0.1
Finance expenses	(0.0)	(0.1)	(0.1)	(0.0)	(0.0)
Profit before tax	3.0	0.8	1.4	1.3	1.0
Income tax credit/(losses)	150.0	0.3	0.4	(0.1)	(0.1)
Net profit	3.2	1.0	1.8	1.3	0.9

Balance Sheet

FYE Dec (US\$'m)	FY21	FY22	FY23	1H24
Assets				
Cash at bank	7.3	6.1	16.4	11.6
Trade and other receivables	3.6	3.7	3.9	4.0
Contract assets	2.6	3.0	3.5	4.2
Current assets	13.5	12.7	23.8	19.9
Investment in financial assets at amortised cost	-	-	-	1.5
Property, plant and equipment	1.3	2.3	2.3	2.0
Right-of-use assets	2.2	2.8	2.5	2.2
Intangible assets	0.2	0.2	0.2	1.9
Investment in subsidiaries	-	-	-	-
Other non-current assets	0.3	0.4	0.2	1.5
Deferred income tax assets	0.8	1.0	1.5	0.4
Total non-current assets	0.5	6.7	6.7	9.4
Total assets	18.5	19.5	30.5	29.3
Liabilities				
Trade and other payables	4.3	4.5	5.4	5.0
Contract liabilities		0.1	0.0	0.1
Current income tax liabilities	0.0	0.0	0.1	0.1
Lease liabilities	0.8	0.9	0.9	0.9
Current liabilities	5.2	5.6	6.4	6.0
Lease liabilities	1.3	1.9	1.7	1.4
Deferred income tax liabilities	1.0	0.9	0.9	1.0
Non-current liabilities	2.3	2.8	2.6	2.3
Total liabilities	7.5	8.4	9.1	8.4
Net assets	11.0	11.1	21.4	21.0
Equity				
Capital and reserves attributable to equity holders of the Company				
Share capital	5.2	5.2	8.6	8.6
Other reserves	(1.3)	(2.2)	4.6	4.3
Retained profits	7.1	8.1	8.2	8.1
Total equity	11.0	11.1	21.4	21.0

Cash Flow Statement

FYE Dec (US\$'m)	FY21	FY22	FY23	1H23	1H24
Cash flows from operating activities					
Profit before income tax	3.0	0.8	1.4	1.3	1.0
Adjustments for:					
Depreciation of property, plant and equipment	0.3	0.4	0.6	0.3	0.3
Depreciation of right-of-use assets	0.6	1.0	1.1	0.6	0.6
Amortisation of intangible assets	0.1	0.1	0.1	0.0	0.1
Expected credit losses	0.0	0.0	0.1	0.1	(0.1)
Share-based compensation expense		0.0	0.0	-	0.2
Interest income	(0.0)	(0.0)	(0.1)	(0.0)	(0.1)
Finance expenses	0.0	0.1	0.1	0.0	0.0
Loss on disposal of property, plant and equipment	0.0	0.1	0.0	0.0	0.0
Loss on disposal of subsidiary	0.1	-	-	-	-
Gains on lease modification		(0.2)	-	-	-
Exchange losses	0.1	0.1	0.1	0.2	(0.0)
Others	4.2	2.3	3.4	2.6	1.9
Changes in working capital:					
Contract assets	(0.6)	(0.6)	(0.5)	(1.4)	(0.9)
Trade and other receivables	(0.6)	(0.4)	(0.4)	0.2	0.1
Contract liabilities		0.1	(0.1)	(0.1)	0.1
Trade and other payables	1.3	0.6	1.0	(0.8)	(0.5)
Change in working capital	0.1	(0.3)	(0.0)	(2.0)	(1.2)
Cash generated from operations	4.3	2.0	3.4	0.6	0.8
Interest received	0.0	0.0	0.1	0.0	0.1
Income tax paid	(0.0)	(0.0)	(0.0)	-	-
Net cash generated from operating activities	4.3	2.0	3.5	0.6	0.9
Cash flows from investing activities					
Additions to property, plant and equipment	(1.0)	(1.6)	(0.6)	(0.3)	(0.1)
Proceeds from disposal of property, plant and equipment	0.1	0.0	0.0	0.0	0.0
Increase / (Decrease) in prepayments for equipment	(0.1)	-	0.1	0.0	-
Additions to intangible assets	(0.2)	(0.1)	(0.0)	(0.0)	(0.0)
Increase in refundable deposits	(0.1)	(0.1)	-	-	-
Decrease in refundable deposits	0.0	-	0.0	0.0	0.0
Acquisition of subsidiaries, net of cash acquired	0.0	-	-	-	(2.0)
Purchase of bonds	-	-	-	-	(1.5)
Net cash used in investing activities	(1.3)	(1.7)	(0.5)	(0.3)	(3.6)
Cash flows from financing activities					
Proceeds from share issuance, net of share issue expenses		-	8.6	3.0	-
Principal payments of lease liabilities	(0.6)	(0.8)	(1.0)	(0.5)	(0.6)
Interest paid	(0.0)	(0.1)	(0.1)	(0.0)	(0.0)
Cash dividends paid		-	-	-	(1.1)
Net cash generated from/(used in) financing activities	(0.6)	(0.9)	7.5	2.5	(1.7)
Net changes in cash and cash equivalents	2.4	(0.6)	10.4	2.8	(4.4)
Cash and cash equivalents					
Beginning of financial year	4.8	7.3	6.1	6.1	16.4
Effects of exchange rate changes on cash and cash equivalents	0.1	(0.6)	(0.1)	(0.3)	(0.4)
End of financial year	7.3	6.1	16.4	8.5	11.6

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