

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



Source: Bloomberg, SAC Capital

ANALYST

Daniel Ng

+65 9382 9657

dng@saccapital.com.sg

Matthias Chan

+65 9687 9957

mchan@saccapital.com.sg

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

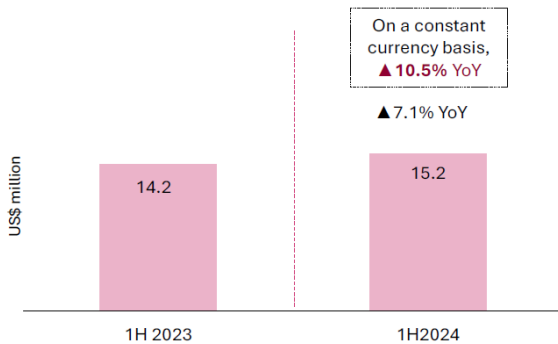
sector, enhancing its scalability and market penetration across developed and emerging markets

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.

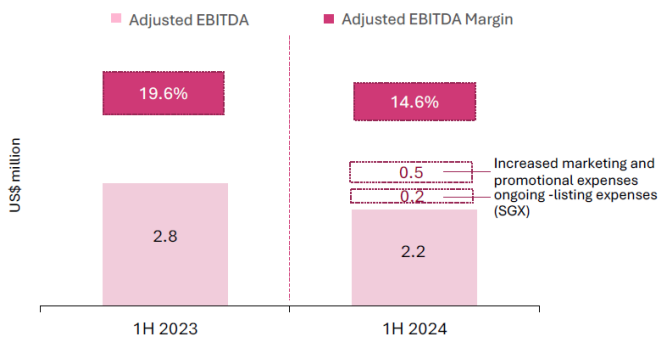
Risks. A significant portion of Winking's revenue is denominated in various currencies, making the company vulnerable to exchange rate fluctuations, potentially impacting profitability. Additionally, the company's aggressive acquisition strategy poses integration risks, particularly in maintaining operational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

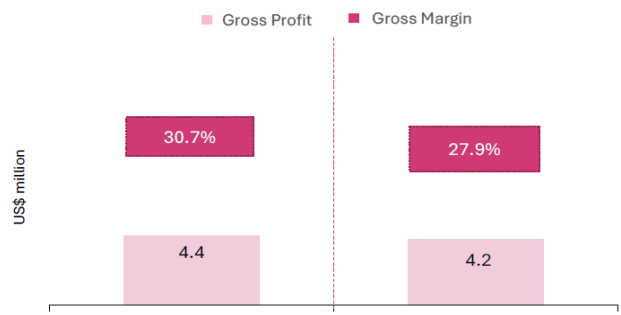
Revenue



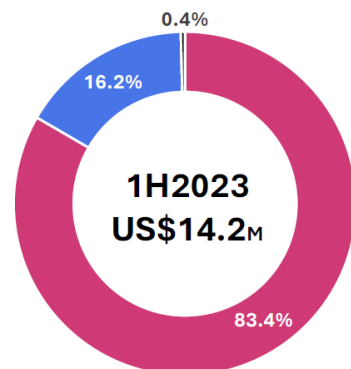
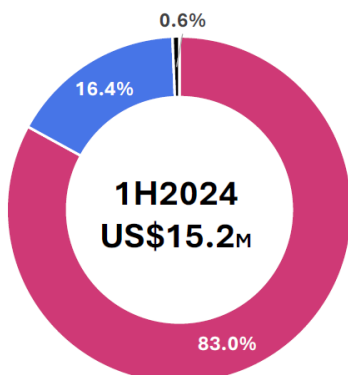
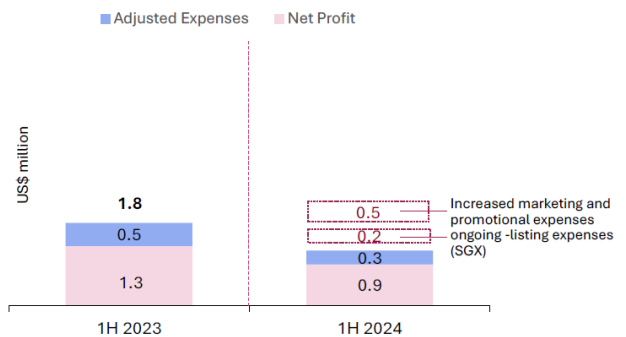
Adjusted EBITDA



Gross Profit/ Gross Margin



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

DISCLAIMERS AND DISCLOSURES

This report has been prepared and distributed by SAC Capital Private Limited (“**SAC Capital**”) which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report has been prepared for the purpose of general circulation, we have not had regard to the specific investment objectives, financial situation, tax position or unique needs and constraints of any individual person or any specific group of persons and does not purport to be comprehensive or contain all necessary information which a prospective investor may require in arriving at an investment decision. Any prospective purchaser should make his own investigation of the securities and all information provided. Advice should be sought from a financial adviser regarding suitability, taking into account the specific investment objectives, financial situation or particular needs of the person in receipt of the recommendation, before a commitment to purchase is entered into.

This report does not constitute or form part of any offer or solicitation of any offer to buy or sell any securities. This report is confidential and the information in this report shall not be copied or reproduced in part or in whole, and save for the recipient of this report, shall not be disclosed to any other person without the prior written consent of SAC Capital. The distribution of this report outside the jurisdiction of Singapore is also strictly prohibited.

Whereas SAC Capital has not independently verified all the information set out in this report, all reasonable care and effort has been taken to ensure that the facts stated herein are accurate, this report might contain certain forward looking statements and forward looking financial information which are based on certain assumptions and involve known and unknown risks, uncertainties and other factors which may cause the actual results or performance of the subject company to be materially different from those expressed herein. Predictions, projections or forecasts of the economy or market trends are not indicative of the future performance of the subject company. The inclusion of such statements and information should not be regarded as a representation, warranty or prediction with respect to the accuracy of the underlying assumptions of the subject company or that the forecast results will or are likely to be achieved.

Our opinion and facts set out in this report are based on the market, economic, industry and other applicable conditions prevailing as at the date of the preparation of this report. Such conditions may change significantly over a relatively short period of time and we assume no responsibility to update, revise or reaffirm our opinion in light of any development subsequent to the publication of this report, that may or may not have affected our opinion contained herein.

This report contains forward-looking statement which are based on assumptions or forecasts and are subject to uncertainties which may result in the actual result or performance to be materially different from the opinion or facts set out herein. Caution should be exercised in placing undue reliance on such statements. such assumptions or forecasts may change over a relatively short period of time and we assume no responsibility to update, revise or reaffirm our opinion in light of any development subsequent to the publication of this report.

No representation or warranty, expressed or implied, is made and no responsibility is accepted by the company, SAC Capital, or any of their affiliates, advisers or representatives as to the fairness, accuracy, completeness or adequacy of such information or facts, in this report or any other written or oral information made available to any interested party or its advisers and any liability therefore is hereby expressly disclaimed.

SAC Capital and its associates, directors, and/or employees may have positions in the securities covered in the report and may also perform or seek to perform other corporate finance and/or capital markets related services for the company whose securities are covered in the report. SAC Capital and its related companies may from time to time perform advisory services or solicit such advisory services from the entity mentioned in this report (“**Other Services**”). This report is therefore classified as a non-independent report. However, the research professionals involved in the preparation of this report are independent of those possible or actual business relationships as they have not and will not participate in the solicitation or provision of such business.

As at the date of this report, SAC Capital does not have proprietary positions or interests in the subject company, except for:

Party	Quantum of position
Nil	Nil

As at the date of this report, none of the analysts who covered the securities in this report have any proprietary position or material interest in the subject companies covered here in, except for:

Analyst name	Quantum of position
Nil	Nil

ANALYST CERTIFICATION/REGULATION AC

As noted above, research analyst(s) of SAC Capital who produced this report hereby certify that

- (i) The views expressed in this report accurately reflect his/her personal views about the subject corporation(s);
- (ii) The report was produced independently by him/her;
- (iii) He/she does not on behalf of SAC Capital or any other person carry out Other Services involving any of the subject corporation(s) or securities referred to in this report; and
- (iv) He/she has not received and will not receive any compensation directly or indirectly related to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. He/she has not and will not receive any compensation directly or indirectly linked to the performance of the securities of the subject corporation(s) from the time of the publication of this report either.