

COMPANY RESULTS

Winking Studios (WKS SP)

1H24: Game-Changing Moves Ahead To Accelerate Growth; Raise Target Price By 9%

WKS's 1H24 core earnings fell 34% yoy to US\$1.2m, missing expectations and forming 28% of our full-year forecast. This was due to the post-acquisition integration impact of two new art outsourcing studios in Apr and Jun 24, and higher marketing expenses. Revenue posted an 11% yoy growth (in local currencies) from increased orders across both business segments. We lift 2025-26 earnings forecasts on full-year contributions from WKS's new acquisitions. Maintain BUY with a 9% higher target price of S\$0.38.

1H24 RESULTS

Year to 31 Dec (US\$m)	1H24	1H23	yoy % chg
Revenue	15.2	14.2	7.1
Gross profit	4.2	4.4	(2.8)
Gross margin (%)	27.9	30.7	(2.8ppt)
EBITDA	2.0	2.3	(12.5)
Net profit	0.9	1.3	(11.3)
Net margin (%)	6.0	8.9	(2.9ppt)
Core net profit*	1.2	1.8	(34.1)
Core net margin* (%)	7.9	12.8	(4.9ppt)

Source: FEH, UOB Kay Hian

*Adjusted to exclude one-off expenses related to IPO(US\$0.5m), dual-listing (US\$0.01m), share-based compensation (US\$0.2m), amortization of intangible assets (US\$0.05m), private placement (US\$0.04m) and acquisition and integration costs (US\$0.01m)

RESULTS

- Earnings below expectations on post-acquisition integration impact.** Winking Studios' (WKS) reported 1H24 revenue of US\$15m (+7% yoy) and core net profit of US\$1.2m (-34% yoy), forming 47% and 28% of our full-year forecasts respectively. The core earnings miss came from weaker gross margin (-3ppt yoy) and net margin (-2.9ppt yoy) after the acquisition of two art outsourcing studios, On Point Creative and Pixeline Production in 1H24. Due to the expected three-month integration phase for the new acquisitions, several projects were deferred to 2H24, while efficiency was reduced. Higher marketing expenses of US\$1m (+86% yoy) was also posted, from more overseas initiatives. Excluding the acquisitions, gross margin was flat yoy at 30%.
- Double-digit revenue growth in local currencies.** In local currency terms, WKS' 1H24 revenue jumped 11% yoy. The Art Outsourcing segment continued to be the key contributor, recording US\$12.6m (+7% yoy) to make up >80% of revenue. This was driven by increased orders from both new and existing clients, particularly in Japan (+208% yoy), South Korea (+26% yoy) and Taiwan (+22% yoy). The Game Development segment also saw an 8% yoy growth on more orders from existing clients.
- Healthy net cash position maintained.** WKS recorded net cash of US\$13.1m as of end-1H24 (about 15% of market cap) with zero borrowings, contributed by improved operating cash flow of US\$0.9m (+56% yoy).

KEY FINANCIALS

Year to 31 Dec (US\$m)	2022	2023	2024F	2025F	2026F
Net turnover	24.5	29.3	32.4	41.9	46.0
EBITDA	2.3	3.2	3.9	6.0	6.8
Operating profit	0.8	1.4	0.2	1.4	2.0
Net profit (rep./act.)	1.0	1.8	0.4	1.6	2.3
Net profit (adj.)	2.2	3.8	3.5	5.0	5.8
EPS (US\$ cent)	1.0	1.4	0.9	1.3	1.5
PE (x)	22.4	16.1	24.2	17.3	14.8
P/B (x)	4.4	2.9	2.1	2.1	2.1
EV/EBITDA (x)	25.4	17.9	14.7	9.6	8.5
Dividend yield (%)	0.0	1.7	2.1	2.3	3.0
Net margin (%)	4.2	6.1	1.1	3.9	5.0
Net debt/(cash) to equity (%)	(29.3)	(64.4)	(69.6)	(18.3)	(25.8)
Interest cover (x)	44.7	154.2	n.a.	n.a.	n.a.
ROE (%)	9.4	10.9	1.2	4.0	5.7
Consensus net profit ()	-	-	4	5	5
UOBKH/Consensus (x)	-	-	0.86	1.06	1.11

Source: Winking Studios, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$0.29
Target Price	S\$0.38
Upside	+31.0%
(Previous TP:	S\$0.35)

COMPANY DESCRIPTION

Winking Studios Limited operates as an art outsourcing and game development studio in Asia. It provides character and environment concept design, and illustration/poster; 3D modelling; in-game animation; and game development services.

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	WKS SP
Shares issued (m):	387.7
Market cap (S\$m):	112.4
Market cap (US\$m):	86.0
3-mth avg daily t'over (US\$m):	0.0

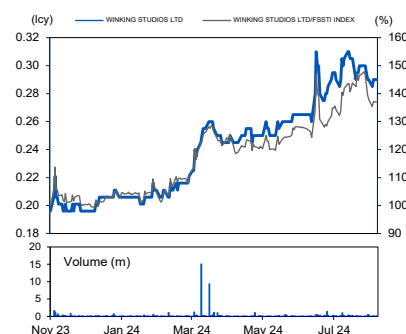
Price Performance (%)

52-week high/low	S\$0.310/S\$0.196			
1mth	3mth	1mth	3mth	1mth
1.8	13.7	37.6	n.a.	40.9

Major Shareholders

Acer Gaming	59.59
FY24 NAV/Share (S\$)	0.10
FY24 Net Debt/Share (S\$)	0.07

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Robust pipeline ahead for 2H24**, with at least US\$10.1m of indicative bookings by customers as of 13 Aug 24 expected to be fulfilled by end-24. We also note that WKS' projects have a high online connectivity of 90.5%. This means that the games require regular updates and enhancements, pointing to potential higher and recurring revenue.
- **WKS' share placement saw significant demand.** On 9 Jul 24, WKS completed a placement at an issue price of S\$0.25/share, a 1% discount to the volume weighted average price of S\$0.2524. 108m new ordinary shares were issued, raising S\$27m gross proceeds and S\$26.5m net proceeds. WKS was heartened to see strong interest from Acer Incorporated, its existing indirect controlling shareholder, the management team and existing and new investors across Singapore, Malaysia and Taiwan.
- **Net proceeds expected to finance synergistic acquisitions...** The net proceeds will be used to fund future growth plans like strategic acquisitions and dual listings to grow its market share and global customer base. Since its IPO in Nov 23, WKS has completed two acquisitions: a) On Point Creative, a Taiwan-based design studio, and b) Pixelline Production, an art outsourcing studio marking WKS's first foray into Malaysia. These are deemed earnings-accretive to the group with target PE multiples below 10x prior to the acquisition. We expect WKS to continue to actively pursue strategic acquisitions to achieve robust growth in 2025-26.
- **...and dual listing exploration on AIM.** On 26 Apr 24, WKS announced its exploration of a dual listing on the AIM market of the London Stock Exchange (LSE). Management expects WKS to benefit from access to a more diverse investor base and additional funding source. Additionally, WKS' peer, LSE-listed Keywords Studios has reportedly agreed to a US\$2.8b bid from European private equity firm EQT in Jul 24, implying a >100x PE valuation. We believe this is positive news for the gaming industry and will allow WKS to improve its trading multiple.

EARNINGS REVISION/RISK

- **We trim 2024 gross and core net margins by 2-3ppt**, as we factor in higher-than-expected marketing expenses and recurring listing expenses.
- **We lift 2025/2026 revenue forecasts by 19-22%** on full-year contributions from the two new acquisitions, and a likely larger acquisition funded by its placement proceeds.
- Our 2024/2025/2026 core earnings forecasts have therefore been adjusted to US\$3.5m/US\$5.0m/US\$5.8m (US\$4.3m/US\$4.7m/US\$5.0m previously), upon excluding one-off expenses including dual listing expenses, amortisation of intangible assets and share-based compensation expense.

VALUATION/RECOMMENDATION

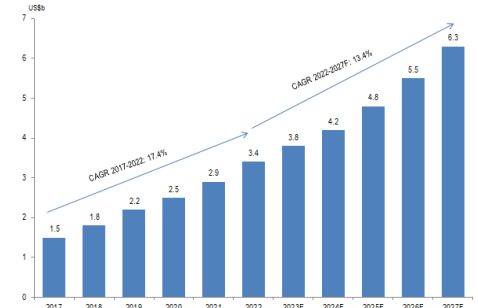
- **Maintain BUY with a 9% higher target price of S\$0.38 (S\$0.35 previously)**, pegged to 22x 2025F PE. We roll over our valuation base year to 2025, where we expect stable earnings post-acquisition integration. WKS is currently trading at a deep 50% discount of 15x 2025F PE vs peers' average of 29x, despite its higher net margin and ROE.

PEER COMPARISON

Company	Ticker	Price @ 22 Aug 24 (1cy)	Market Cap (US\$m)	PE			P/B 2024	ROE 2024	Yield 2024	Net Margin		
				2023* (x)	2024* (x)	2025 (x)				2023* (%)	2024* (%)	2025 (%)
Toei Animation Co	4816 JP	2970	4277	27.7	37.1	29.7	4.6	14.8	0.8	21.2	21.3	21.4
Keywords Studios	KWS LN	2406	2540	23.1	56.2	20.9	1.9	3.5	0.1	2.6	10.7	10.0
Pole To Win Holdings Inc	3657 JP	422	110	23.1	n.a.	37.3	1.3	(11.6)	3.3	-4.2	0.1	0.7
Tose Co	4728 JP	660	35	17.3	10.7	n.a.	0.8	7.9	3.5	8.6	n.a.	n.a.
Global Mofy Metaverse	GMM US	0.955	27	n.a.	3.1	n.a.	1.0	52.7	0.0	24.4	n.a.	n.a.
Silicon Studio Corp	3907 JP	871	18	13.1	16.6	n.a.	1.9	11.6	0.0	4.4	n.a.	n.a.
Reallusion Inc	6882 TT	27	20	13.3	23.5	n.a.	n.a.	n.a.	n.a.	8.6	n.a.	n.a.
Average				32.1	119.0	29.3	3.5	3.7	8.2	1.7	9.4	10.7
Winking Studios	WKS SP	0.29	86	14.2	12.7	14.8	2.6	10.9	0.0	8.9	13.1	11.8

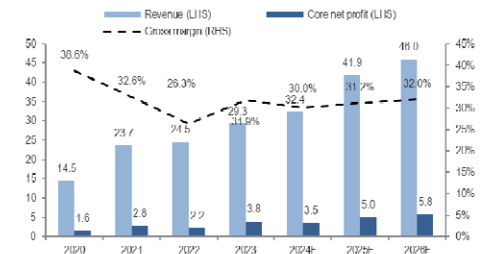
*Adjusted to exclude one-off IPO expenses and foreign currency translation.
Source: Bloomberg, UOB Kay Hian

GLOBAL GAME ART OUTSOURCING MARKET SIZE BY REVENUE, 2017 – 2027F



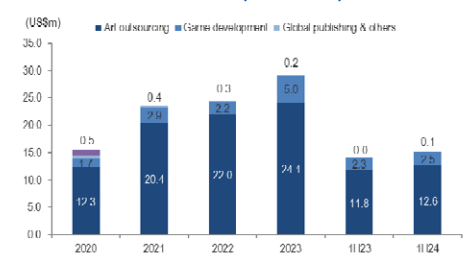
Source: CIC, UOB Kay Hian

REVENUE, CORE EARNINGS AND GROSS MARGIN



Source: Winking Studios, UOB Kay Hian

REVENUE BY SEGMENT (2020-1H24)



Source: Winking Studios, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (US\$m)	2023	2024F	2025F	2026F
Net turnover	29.3	32.4	41.9	46.0
EBITDA	3.2	3.9	6.0	6.8
Deprec. & amort.	1.8	3.7	4.6	4.8
EBIT	1.4	0.2	1.4	2.0
Net interest income/(expense)	(0.0)	0.2	0.2	0.2
Pre-tax profit	1.4	0.3	1.5	2.2
Tax	0.4	0.0	0.1	0.1
Minorities	0.0	0.0	0.0	0.0
Net profit	1.8	0.4	1.6	2.3
Net profit (adj.)	3.8	3.5	5.0	5.8

BALANCE SHEET

Year to 31 Dec (US\$m)	2023	2024F	2025F	2026F
Fixed assets	4.8	4.8	4.9	4.9
Other LT assets	1.9	5.1	24.6	21.2
Cash/ST investment	16.4	30.8	10.0	13.1
Other current assets	7.3	8.6	11.2	12.3
Total assets	30.5	49.4	50.7	51.5
ST debt	0.9	0.9	0.9	0.9
Other current liabilities	5.5	5.4	6.8	7.4
LT debt	1.7	1.7	1.7	1.7
Other LT liabilities	0.9	0.9	0.9	0.9
Shareholders' equity	21.4	40.4	40.3	40.6
Minority interest	0.0	0.0	0.0	0.0
Total liabilities & equity	30.5	49.4	50.7	51.5

CASH FLOW

Year to 31 Dec (US\$m)	2023	2024F	2025F	2026F
Operating	3.5	3.3	5.7	7.1
Pre-tax profit	1.4	0.3	1.5	2.2
Tax	(0.0)	0.0	0.1	0.1
Deprec. & amort.	0.6	0.6	0.6	0.6
Associates	0.0	0.0	0.0	0.0
Working capital changes	(0.0)	(1.4)	(1.1)	(0.5)
Non-cash items	0.1	0.5	0.5	0.5
Other operating cashflows	1.3	3.2	4.1	4.3
Investing	(0.5)	(6.5)	(23.3)	(0.6)
Capex (growth)	(0.7)	(4.4)	(23.3)	(0.6)
Investments	0.0	(3.5)	0.0	0.0
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	0.1	1.5	0.0	0.0
Financing	7.5	17.9	(2.9)	(3.1)
Dividend payments	n.a.	(1.1)	(1.8)	(2.0)
Issue of shares	8.6	20.0	0.0	0.0
Proceeds from borrowings	(1.0)	(1.0)	(1.0)	(1.0)
Loan repayment	0.0	0.0	0.0	0.0
Others/interest paid	(0.1)	(0.1)	(0.1)	(0.1)
Net cash inflow (outflow)	10.4	14.7	(20.5)	3.4
Beginning cash & cash equivalent	6.1	16.4	30.8	10.0
Changes due to forex impact	(0.1)	(0.3)	(0.3)	(0.3)
Ending cash & cash equivalent	16.4	30.8	10.0	13.1

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	11.1	12.1	14.3	14.8
Pre-tax margin	4.9	1.1	3.7	4.7
Net margin	6.1	1.1	3.9	5.0
ROA	7.1	0.9	3.2	4.5
ROE	10.9	1.2	4.0	5.7
Growth				
Turnover	19.5	10.7	29.2	9.9
EBITDA	42.0	21.2	52.8	13.7
Pre-tax profit	83.6	(75.4)	339.7	41.5
Net profit	71.6	(79.4)	339.7	41.5
Net profit (adj.)	75.8	(7.8)	40.2	17.1
EPS	38.9	(33.5)	40.2	17.1
Leverage				
Debt to total capital	10.9	6.1	6.2	6.1
Debt to equity	12.2	6.5	6.6	6.5
Net debt/(cash) to equity	(64.4)	(69.6)	(18.3)	(25.8)
Interest cover (x)	154.2	n.a.	n.a.	n.a.

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