

INITIATE COVERAGE

Winking Studios (WKS SP)

Levelling Up In The Dynamic World Of Game Art

Winking Studios has established itself as a leading game art outsourcing studio globally with over 25 years of experience. As demand for game art outsourcing is expected to rise with the surge in game popularity, we expect the group's 2024/25 core earnings to grow 12%/10% respectively. In view of its strong backing by Acer Gaming and robust cash flow, we think the group will continue to achieve inorganic growth via acquisitions. Initiate coverage with BUY. Target price: S\$0.35.

INVESTMENT HIGHLIGHTS

- **Leading game art outsourcing studio with strong track record.** With a 25-year track record of delivering end-to-end art outsourcing and game development services for the gaming sector, Winking Studios is the third-largest game art outsourcing studio in Asia and fourth largest globally. Some 82% of its revenue is derived from art outsourcing, where environment and characters are designed. Through its long-term working relationships with 19 of the top 25 game companies worldwide, it has been involved in internationally renowned and award-winning projects like Assassin's Creed and Genshin Impact. As of 31 Mar 24, Winking Studios operates seven studios in Nanjing, Shanghai and Taipei with over 700 employees, including 600 designers and artists.
- **In strong position to capitalise on booming game art outsourcing industry.** To date, Winking Studios' portfolio consists of over 1,400 and 25 completed art outsourcing and game development projects respectively. This is expected to grow exponentially on the back of higher demand for game art outsourcing services, driven by a staggering surge in the popularity of games. Per China Insights Industry Consultancy, the market size of the global game art outsourcing market by revenue in 2022 was US\$3.4b and is expected to grow at a five-year CAGR of 13.4% to US\$6.3b in 2027. Given Winking Studios' strong international brand recognition for quality work and services, we expect the group to experience healthy growth in revenue to US\$32.4m-37.7m (three-year CAGR of 8.8%) and core earnings to US\$4.3m-5.0m (three-year CAGR of 9.4%) respectively for 2024-26.

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KEY FINANCIALS

Year to 31 Dec (US\$m)	2022	2023	2024F	2025F	2026F
Net turnover	24.5	29.3	32.4	35.1	37.7
EBITDA	2.3	3.2	5.7	6.1	6.4
Operating profit	0.8	1.4	3.9	4.3	4.7
Net profit (rep./act.)	1.0	1.8	4.3	4.7	5.0
Net profit (adj.)	2.2	3.8	4.3	4.7	5.0
EPS (US\$ cent)	1.0	1.4	1.5	1.7	1.8
PE (x)	19.8	14.2	12.7	11.6	10.9
P/B (x)	3.9	2.6	2.2	2.0	1.8
EV/EBITDA (x)	16.6	11.7	6.6	6.3	5.9
Dividend yield (%)	0.0	1.9	3.9	4.3	4.6
Net margin (%)	4.2	6.1	13.3	13.5	13.4
Net debt/(cash) to equity (%)	(29.3)	(64.4)	(68.5)	(70.9)	(73.0)
Interest cover (x)	44.7	154.2	215.8	152.5	174.0
ROE (%)	9.4	10.9	18.6	18.2	17.6
Consensus net profit ()	-	-	-	-	-
UOBKH/Consensus (x)	-	-	-	-	-

Source: Winking Studios, Bloomberg, UOB Kay Hian

BUY

Share Price	S\$0.265
Target Price	S\$0.350
Upside	+32.1%

COMPANY DESCRIPTION

Winking Studios 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):	279.7
Market cap (S\$m):	74.1
Market cap (US\$m):	55.0
3-mth avg daily t'over (US\$m):	0.1

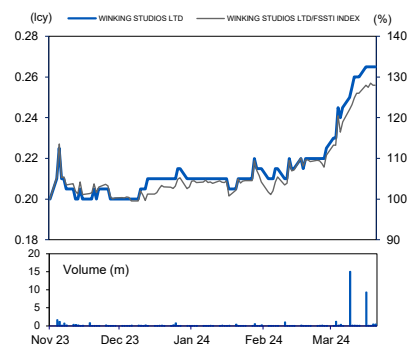
Price Performance (%)

52-week high/low	S\$0.265/S\$0.200			
1mth	3mth	6mth	1yr	YTD
20.5	26.2	n.a.	n.a.	26.2

Major Shareholders

	%
Acer Gaming	59.59
-	-
-	-
FY24 NAV/Share (S\$)	0.09
FY24 Net Debt/Share (S\$)	0.06

PRICE CHART



Source: Bloomberg

ANALYST(S)

Heidi Mo
 +65 6590 6630
 heidimo@uobkayhian.com

- Steady build-up of talent pool to support growth plans.** Winking Studios' credible reputation in the industry is attributed to its status as a preferred employer for graduates and experienced hires. This is evident from the steady growth in its number of employees, with around 60% stemming from partnerships with design institutions for graduate recruitment. We note that Winking Studios' top-line performance has grown in line with its talent pool, except for 2022 which was impacted by China's restriction on issuance of game approvals which has since been lifted. From 2020 to 2023, Winking Studios' employee base grew 83% while revenue saw a corresponding 102% rise. As at end-23, the group had approximately 600 game art employees, and we expect its latest addition On Point Creative to add about 50 game art employees and contribute to near-term growth.

EARNINGS REVISION/RISK

- Expect healthy revenue and core earnings growth, driven by booming game development outsourcing industry and expansion plans.** For 2024-2026, we estimate total revenue at US\$32.4m-37.7m (three-year CAGR of 8.8%) and core earnings at US\$4.3m-5.0m (three-year CAGR of 9.4%). This comes on the back of: a) higher demand for game art outsourcing in both the global (five-year CAGR of 13.4%) and APAC (five-year CAGR of 14.4%) markets; and b) acquisition of On Point Creative and continued pursuit of strategic acquisitions. We expect steady sales growth in 2024-2026 from its growing customer base, as well as stable gross margins from effective cost management.

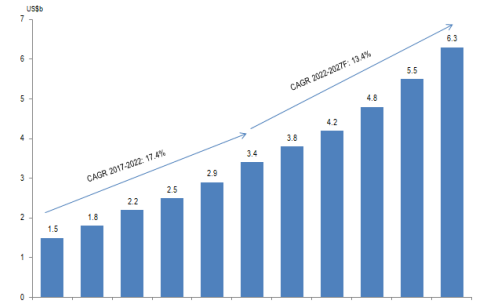
VALUATION/RECOMMENDATION

- Initiate coverage with BUY and a target price of S\$0.35**, pegged to 17x 2024F PE at a 35% discount to its peers. Winking Studios' current adjusted valuation multiple of 13x FY24F PE is at around a 50% discount to its peers' 2024F PE average of 27x. We think that the market has overlooked Winking Studios' strong performance to date and its upcoming growth prospects. To recap, Winking Studios' core earnings more than doubled from US\$1.6m in 2020 to US\$3.8m in 2023, representing a three-year CAGR of 35.4%. With the integration of its new acquisition One Point Creative, and strong backing from its major shareholder Acer Gaming, we remain positive on the stock.

SHARE PRICE CATALYST

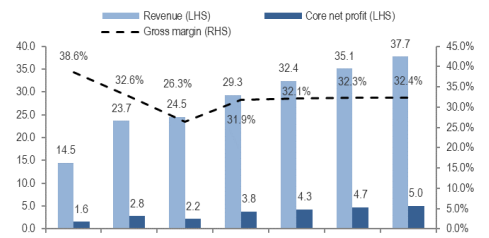
- Higher-than-expected growth in professional art talents.
- Better-than-expected gross margins from effective cost management.

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



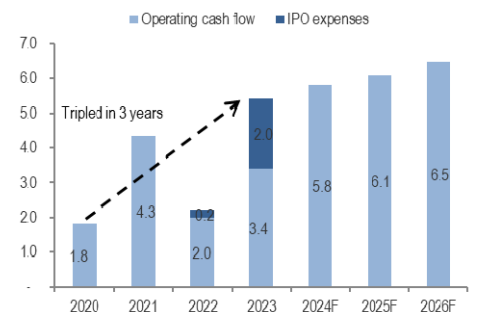
Source: CIC, UOB Kay Hian

REVENUE, CORE EARNINGS AND GROSS MARGIN



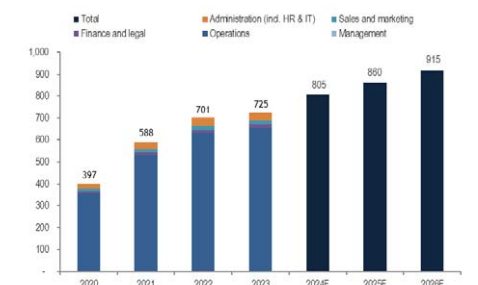
Source: Winking Studios, UOB Kay Hian

OPERATING CASH FLOW HAS GROWN THREE-FOLD IN 3 YEARS EXCLUDING IPO EXPENSES



Source: Winking Studios, UOB Kay Hian

HEALTHY GROWTH IN NUMBER OF EMPLOYEES



Source: Winking Studios, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (US\$m)	2023	2024F	2025F	2026F
Net turnover	29.3	32.4	35.1	37.7
EBITDA	3.2	5.7	6.1	6.4
Deprec. & amort.	1.8	1.8	1.7	1.7
EBIT	1.4	3.9	4.3	4.7
Net interest income/(expense)	(0.0)	(0.0)	(0.0)	(0.0)
Pre-tax profit	1.4	3.9	4.3	4.7
Tax	0.4	0.4	0.4	0.4
Minorities	0.0	0.0	0.0	0.0
Net profit	1.8	4.3	4.7	5.0
Net profit (adj.)	3.8	4.3	4.7	5.0

CASH FLOW

Year to 31 Dec (US\$m)	2023	2024F	2025F	2026F
Operating	3.5	6.3	6.6	7.0
Pre-tax profit	1.4	3.9	4.3	4.7
Tax	(0.0)	0.4	0.4	0.4
Deprec. & amort.	0.6	0.6	0.6	0.6
Associates	0.0	0.0	0.0	0.0
Working capital changes	(0.0)	(0.0)	(0.1)	(0.1)
Non-cash items	0.1	0.1	0.1	0.1
Other operating cashflows	1.3	1.3	1.2	1.3
Investing	(0.5)	(0.9)	(0.9)	(0.9)
Capex (growth)	(0.7)	(0.9)	(0.9)	(0.9)
Investments	n.a.	n.a.	n.a.	n.a.
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	0.1	0.0	0.0	0.0
Financing	7.5	(2.1)	(3.3)	(3.5)
Issue of shares	8.6	0.0	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)	(1.1)	(2.3)	(2.5)
Net cash inflow (outflow)	10.4	3.3	2.5	2.6
Beginning cash & cash equivalent	6.1	16.4	19.5	22.0
Changes due to forex impact	(0.1)	(0.1)	(0.1)	(0.1)
Ending cash & cash equivalent	16.4	19.5	22.0	24.5

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	2.0	2.1	2.2
Cash/ST investment	16.4	19.5	22.0	24.5
Other current assets	7.3	7.9	8.4	9.0
Total assets	30.5	34.3	37.4	40.5
ST debt	0.9	0.9	0.9	0.9
Other current liabilities	5.5	6.1	6.5	7.0
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	24.7	27.3	29.9
Minority interest	0.0	0.0	0.0	0.0
Total liabilities & equity	30.5	34.3	37.4	40.5

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	11.1	17.6	17.3	17.1
Pre-tax margin	4.9	12.1	12.3	12.4
Net margin	6.1	13.3	13.5	13.4
ROA	7.1	13.3	13.2	12.9
ROE	10.9	18.6	18.2	17.6
Growth				
Turnover	19.5	10.7	8.3	7.5
EBITDA	42.0	76.4	6.0	6.5
Pre-tax profit	83.6	174.7	10.0	8.5
Net profit	71.6	141.5	10.0	6.5
Net profit (adj.)	75.8	11.7	10.0	6.5
EPS	38.9	11.7	10.0	6.5
Leverage				
Debt to total capital	10.9	9.7	8.9	8.1
Debt to equity	12.2	10.7	9.7	8.8
Net debt/(cash) to equity	(64.4)	(68.5)	(70.9)	(73.0)
Interest cover (x)	154.2	215.8	152.5	174.0

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