INITIATION

Media ▪ Singapore

Winking Studios Limited

(WKS SP/WKS.SI)

Visualising the future of gaming

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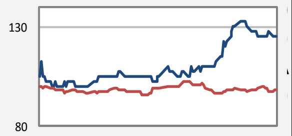
- **Inorganic growth strategy.** Winking Studios Limited embarked on an inorganic growth strategy to bolster its sales volume. This initiative culminated in the full acquisition of On Point Creative Co., Ltd. on 1 April 2024. Aligned with the company's expansion objectives, this strategic move not only secures two additional global game publishers as clients but also promises to amplify its top-line growth trajectory.
- **Continued organic growth.** Winking Studios remains committed to sustaining organic growth alongside its acquisition endeavours. In addition to expanding its client base through the acquisition of smaller art outsourcing studios, the company has bolstered its internal business development team. This team is dedicated to securing sales from key markets such as Japan and the United States, further diversifying its geographic reach. Furthermore, Winking has demonstrated consistent workforce expansion, with an annual double-digit growth rate. This strategic increase in manpower positions the company to tackle larger and more extensive projects from various publishers, driving sustained growth and market competitiveness.
- We initiate an **OUTPERFORM** recommendation and a target price of **S$0.34** based on a DCF valuation method and the assumption of the successful placement of 108mn new ordinary shares announced on 10 April 2024.

Outperform - Initiation			
Price as of 26 Apr 24 (SGD)	0.25	**Performance (Absolute)**	
12M TP ($)	0.34	1 Month (%)	0.0
Previous TP ($)	-	3 Month (%)	19.0
Upside, incl div (%)	35.5	12 Month (%)	N/A
Trading data		**Perf. vs STI Index (Red)**	
Mkt Cap ($mn)	70		
Issued Shares (mn)	280		
Vol - 3M Daily avg (mn)	0.5		
Val - 3M Daily avg ($mn)	0.1		
Free Float (%)	33.1%		
Major Shareholders		**Previous Recommendations**	
Acer Gaming	51.0%		
Cho Tai Wei	9.1%		
Acer Softcapital Inc	8.6%		



Financials & Key Operating Statistics

YE Dec (USD' 000)	2022	2023	2024F	2025F	2026F
Revenue	24,498	29,281	37,030	44,436	51,990
PATMI	1,037	1,780	3,915	4,682	5,465
EPS (USD)	0.005	0.007	0.011	0.013	0.016
EPS growth (%)	–	–	52.4	19.6	16.7
DPS (Sing cents)	–	0.5	0.6	0.7	0.8
Div Yield (Y%)	0.0%	2.0%	2.4%	2.8%	3.3%
Net Profit Margin (%)	4.2%	6.1%	10.6%	10.5%	10.5%
Net Gearing (%)	N/A	N/A	N/A	N/A	N/A
Price P/B (x)	–	2.45	1.61	1.46	1.31
ROE (%)	0.0%	8.3%	8.7%	9.4%	9.9%

Source: Company data, KGI Research

Company Background. Winking Studios Limited is the third largest in Asia's art outsourcing landscape, boasting a client roster that includes 21 of the top 25 global game publishers. The company's primary revenue stream originates from its robust art outsourcing segment, supported by a workforce of over 800 skilled professionals. With a steadfast vision, Winking Studios aspires to further its expansion endeavours, ultimately aiming to emerge as the preeminent global game art developer and production service provider.

Gaming industry growth. The gaming industry is poised for significant expansion, with a projected CAGR of 3.7% expected to propel it to a valuation of US$205.4bn by FY26. This upward trajectory is underpinned by the rising popularity of e-sports and the influential role of content creators in shaping gaming trends. Today's game developers benefit from an array of platforms for game releases, including PC, mobile, PlayStation, and Nintendo Switch, enabling simultaneous launches to diversify revenue streams. Moreover, as player expectations for immersive gaming experiences continue to rise, developers face the challenge of delivering larger worlds and more impressive graphics, driving an upward trend in game development budgets. The robust expansion of the gaming industry, fuelled by e-sports popularity and evolving gaming trends, will enable Winking to capitalize on increased demand for its art outsourcing services across diverse gaming platforms, driving revenue growth and market prominence.

FY23 financial review: Winking exceeded expectations with robust performance growth in FY23. The company achieved an impressive overall revenue growth of 19.5% YoY, driven primarily by heightened contributions from its art outsourcing and game development segments. The 9.5% YoY increase in art outsourcing revenue stemmed from securing new contracts from customers in key markets such as the United States and South Korea. Notably, the game development segment witnessed a remarkable 124.3% YoY surge, fuelled by expanded business with existing clients and the acquisition of projects from new customers.

Figure 1: Revenue growth by business segments

(USD' 000)	FY22	FY23	YoY change
Art outsourcing	22,021	24,124	9.5%
Game development	2,227	4,996	124.3%
Global publishing & other services	250	161	-35.6%
Total revenue	**24,498**	**29,281**	**19.5%**

Source: Company, KGI Research

Furthermore, gross profit margins saw a notable improvement, rising to 31.9% in FY23 compared to 26.3% in FY22, indicating enhanced operational efficiency and profitability. However, operating expenses experienced an uptick, primarily driven by increased distribution and marketing expenses, as well as elevated administrative costs related to heightened marketing and sales activities and expenses associated with the company's recent IPO. Despite these increased expenditures, Winking's strong revenue growth and improved gross profit margins underscore its overall financial health and strategic trajectory.

Placement announcement. On 10 April, Winking Studios unveiled plans to raise up to S$27 million through a placement of new shares priced at 25 cents each. The initiative entails the issuance of up to 108 million shares, with Acer Group, the company's largest shareholder, committing to subscribe to at least 64.8 million new shares valued at S$16.2 million. In the event of unsubscribed shares, Acer Group will absorb the remaining placement shares. If fully subscribed, Winking Studios' share base will expand by over a third to 387.7 million shares. This strategic placement aims to bolster the company's financial capacity to pursue acquisitions, alliances, and joint ventures, thereby augmenting its market share and customer base. Additionally, a portion of the raised funds will be allocated towards enhancing its AI capabilities.

Acquisition spree. On 1 April 2024, Winking Studios Limited successfully completed the acquisition of 100% ownership of On Point Creative Co., Ltd (OPC). Established in Taipei in 2018, OPC enriches the group with extensive expertise in art production services spanning from 2D design and animation to 3D production and advertising promotion. The integration of OPC is poised to infuse Winking Studios with fresh creativity and vitality, potentially revolutionizing game art outsourcing technology on the global stage. This strategic acquisition marks the commencement of Winking Studios' expansion journey, leveraging the flexibility and convenience of the Singapore Exchange to pursue further impactful acquisitions aimed at enhancing the brand's global reputation and influence. Additionally, on 8 April, Winking Studios announced that it plans to acquire assets and services from Pixelline Production, a Malaysian art and animation outsourcing company, solidifying its commitment to strategic growth.

Valuation & Action: We recommend an **OUTPERFORM** rating for Winking Studios, with a diluted target price of **S$0.34** and a non-diluted share price of **S$0.47.** These figures are derived from a DCF analysis, incorporating a terminal growth rate of 2.0% and a cost of equity of 12.0%. As the company progresses with its expansion plans and experiences enhanced revenue growth driven by the expansion of its art outsourcing segment and increased sales from its business development team, we anticipate this positive trend to persist and reflect in the FY24 revenue figures.

Risks: Margin pressure due to competition and lower-than-expected new order wins.

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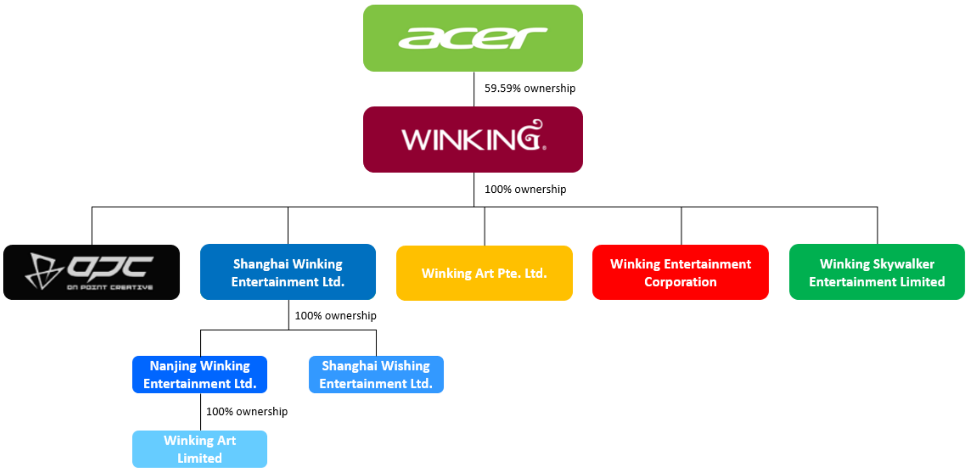
Company background

Winking Studios Limited, a leading player in the gaming industry, commenced trading on the Singapore Exchange on 20 November 2023. With over 25 years of experience, Winking stands as Asia's third-largest game art outsourcing studio, offering comprehensive art outsourcing and game development services for various gaming platforms.

Headquartered in Singapore, Winking Studios operates eight studios strategically located in Nanjing, Shanghai, and Taipei. The company boasts a workforce of over 800 employees, the majority of whom are dedicated designers and artists, catering to a diverse global clientele.

A significant aspect of Winking's corporate structure is its majority ownership by Acer Gaming, a subsidiary of the Acer Group. Acer Gaming brings to Winking Studios a wealth of industry relationships and expertise in art outsourcing, game development, and a deep understanding of the Asian gaming market landscape. This partnership fortifies Winking's position in the industry and enhances its ability to deliver high-quality services to clients worldwide.

Figure 2: Winking organisational chart



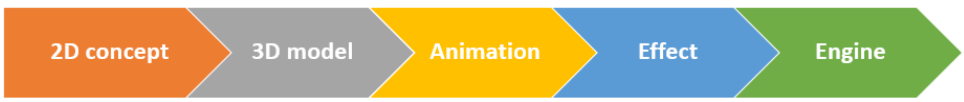
Source: Company, KGI Research

Company merits

Winking Studios primarily generates revenue through its art outsourcing services. A portion of the ODM Game Development and OEM Art Outsourcing Business Group are part of the Taiwan office. Majority of Winking's OEM Art Outsourcing Business Group are in Nanjing whereas its International Development Business Group is distributed globally. Winking Studios offers a range of art outsourcing services, including 2D and 3D concept art, animation, and visual effects, catering to clients across different gaming platforms such as mobile, computer, PlayStation, and Nintendo.

Figure 3: Art outsourcing production process for 3D and 2D games respectively

3D game production process:



2D game production process:

Source: Company, KGI Research

With approximately 700 out of its 800 employees dedicated to artistic roles, Winking Studios possesses the capacity to handle large-scale projects, making it an attractive choice for clients seeking extensive art resources. The company has established itself as a reputable player in the art outsourcing industry, ranking fourth globally and third in Asia. Stringent internal controls, such as comprehensive surveillance systems and restricted internet access for employees, are in place to prevent unauthorized dissemination of client artworks.

Winking Studios has fostered strong relationships with 21 of the top 25 game developers worldwide over the past two decades, leveraging its reputation and connections to secure new projects. The company's expansion strategy involves continual growth of its workforce in Nanjing, with a yearly increase of approximately between 10% to 20%. Recruitment efforts are focused on talent acquisition from local art schools, career fairs, and referrals, with new hires undergoing a rigorous six-month training program to ensure the quality and timeliness of their work. Additionally, ongoing skills development through workshops and training sessions enables employees to stay abreast of industry standards. Moreover, Winking Studios is actively deploying its business development team to participate in numerous gaming conventions, strategically expanding its presence in the gaming community. Through targeted hiring initiatives, the company is also bolstering its workforce to penetrate new markets, effectively enhancing its brand visibility and solidifying its position in the competitive art outsourcing market.

Figure 4: Winking Studios key clients

Source: Company

Company outlook

Looking ahead, Winking Studios aims to solidify its position as the leading global provider of game art development and production services. The company intends to achieve this goal through both organic and inorganic growth, including acquisitions of smaller art outsourcing businesses. The recent acquisition of On Point Studios, comprising approximately 100 employees in Taiwan and Suzhou, has expanded Winking's client base and paved the way for further growth. Future expansion plans include venturing into Malaysia and exploring the development of AI technology to optimize costs and improve efficiency in its art outsourcing processes.

In summary, Winking Studios' strategic focus on talent acquisition, client relationships, and technological innovation positions it for continued growth and success in the competitive art outsourcing market.

Industry Outlook

The global video game market is set to rebound in 2024, with a projected growth of 2.8% to US$189.3bn. Strong sales of Microsoft's Xbox and Sony's PlayStation 5 consoles are expected to be key drivers. Despite a less impressive release catalogue in 2024, growth will be fuelled by live-service games and back catalogue sales. Subscription services like PlayStation Plus and Xbox Game Pass may experience slower growth, while Sony anticipates selling 25 million PlayStation 5 units.

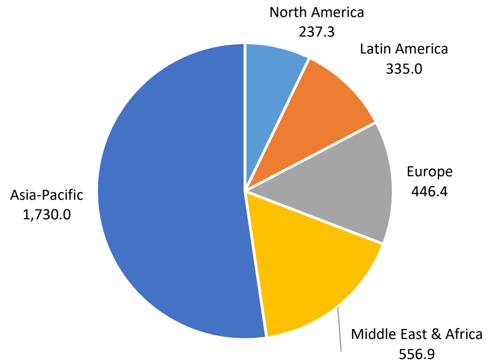
According to Newzoo, the global online game industry is expected to grow at a 3.7% compound annual growth rate (CAGR) to reach US$205.4bn by 2026. The number of players worldwide is projected to grow to 3.68 billion by 2026, with mobile gaming driving much of the growth. Asia-Pacific dominates player numbers, with notable growth in the Middle East & Africa and Latin America. Factors contributing to this growth include improved mobile internet infrastructure and the rise of the middle class.

In addition to the aforementioned trends, according to HTF Market Intelligence, the Global Game Outsourcing Service market is projected to witness remarkable growth, with a staggering forecasted CAGR of 31.9% during the period between 2024 to 2030. This surge is expected to propel the market size to increase by US$32,194mn by 2030. The current market value is estimated at US$4,214.62mn, reflecting the immense potential and lucrative opportunities within the game outsourcing service sector. This forecast underscores the escalating demand for outsourcing services within the gaming industry, signalling robust growth prospects and an evolving landscape ripe for innovation and expansion.

In 2023, the global games market generated US$184.0bn in revenue, with the mobile segment experiencing a decline due to challenges related to privacy policies. Console gaming saw growth driven by highly anticipated releases, while PC gaming showed the fastest growth. Despite challenges in some regions, most experienced healthy revenue growth, with Asia-Pacific leading despite slower growth due to challenges in the Chinese market.

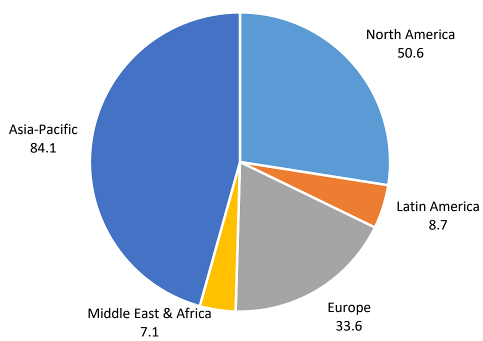
The gaming industry is undergoing significant transformations driven by technological advancements and shifting consumer behaviours. Key trends include the shift to live services, the impact of generative AI on content creation, the introduction of complementary gaming devices, mobile gaming regulations reshaping the landscape, influencer-led game studios gaining prominence, steady growth in virtual reality gaming, and notable developments in gaming in Saudi Arabia, Japan, and China.

Figure 5: FY23 Global players by region ('mn)



Source: Newzoo International, KGI Research

Figure 6: FY23 Global game market revenue by region ('bn)



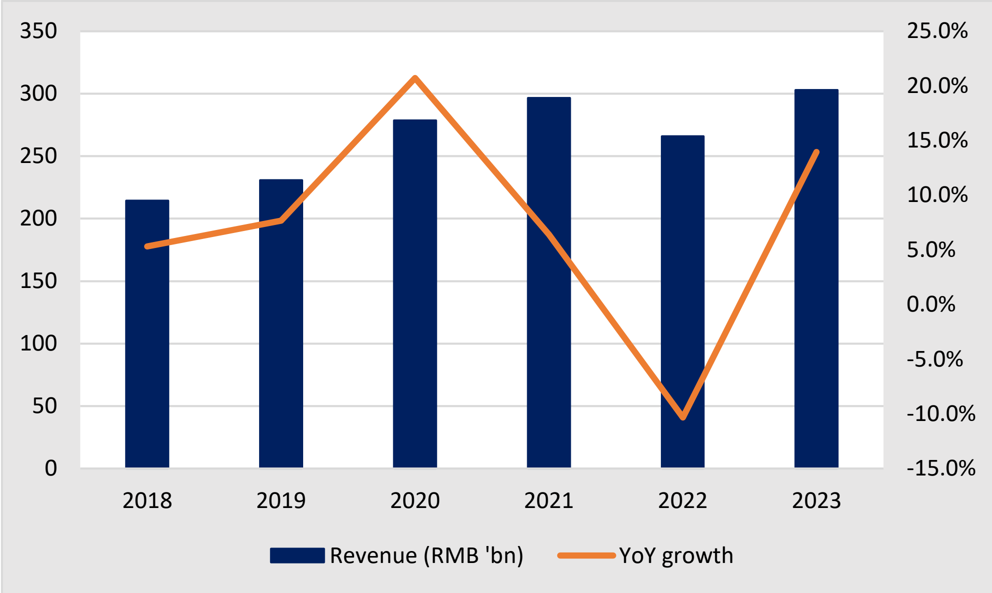
Source: Newzoo International, KGI Research

China gaming industry

China's gaming industry continues to assert its dominance on the global stage, boasting the largest share of mobile games revenue and a rapidly expanding international presence, accounting for 47% of the global mobile gaming revenue. According to the China Audio-Video and Digital Publishing Association, in FY23 China had a total of 668mn gamers and a domestic market exceeding RMB300bn, a 13.95% YoY increase to RMB302.96bn. This demonstrates the immense potential and scale of the Chinese gaming industry.

The sector is projected to maintain robust growth, with a CAGR of 7.63% from 2024 to 2029, with projections showing an increase from US$66.13bn in 2024 to US$95.51bn in 2029. Key drivers of this growth include the increasing popularity of e-sports, ongoing digital transformation initiatives, and advancements in cloud gaming services. Mobile gaming remains the dominant platform, capturing the majority of revenue and player engagement.

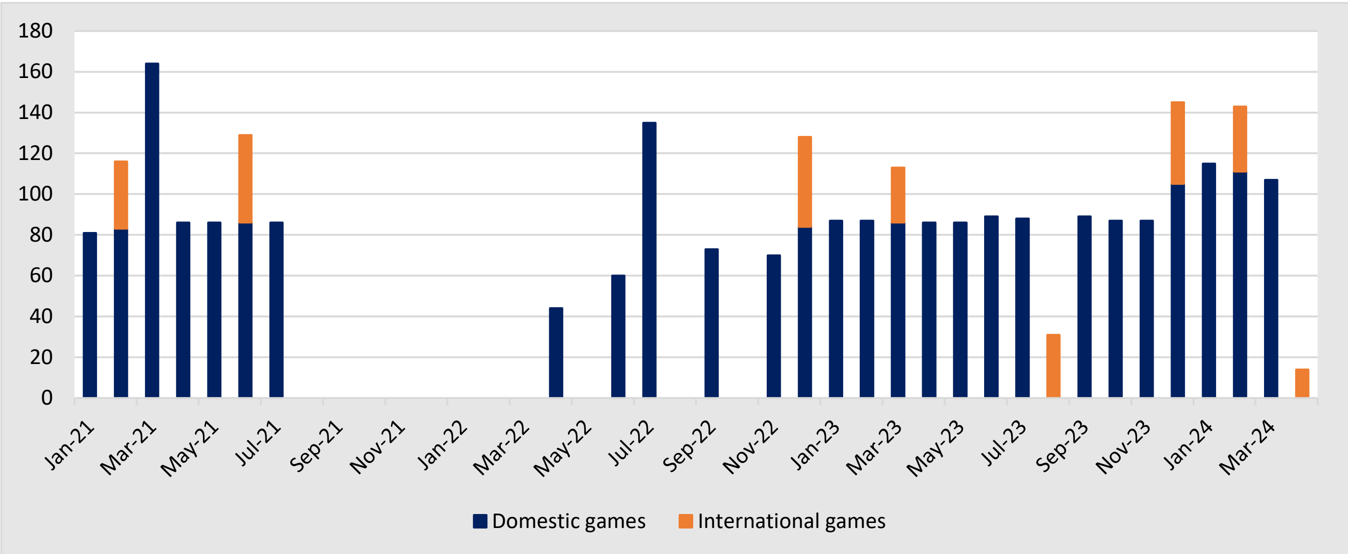
Figure 7: China's gaming market growth



Source: 2023 Research Report on Chinese Gaming Overseas by the Game Publishing Committee of the China Audio-Video and Digital Publishing Association, KGI Research

Despite regulatory scrutiny, recent approvals of a total of 370 domestic and international new online games signal government support for the sector, providing relief to developers and fostering innovation. China's gaming industry also stands as a global hub for e-sports, hosting major tournaments and attracting top talent from around the world.

Figure 8: National Press and Publication Administration (NPPA) number of game licenses approved per month from Jan 2021 to Apr 2024



Source: China's National Press and Publication Administration (NPPA), KGI Research

The proliferation of virtual reality (VR) technologies presents additional opportunities for growth, with collaborations between tech giants like Meta Platforms (formerly Facebook) and Tencent Holdings driving market penetration. Furthermore, China's emphasis on e-sports education and the establishment of multiple e-sports teams underscore the government's commitment to fostering a vibrant gaming ecosystem.

Moreover, domestic gaming firms have continued to expand overseas, mitigating regulatory challenges, and tapping into new markets. Their strategic expansion efforts in regions like Southeast Asia and Latin America show promise, with sales revenue in foreign markets reaching US$17.34bn in 2023.

However, the industry operates within a regulatory landscape characterized by constant change and scrutiny. Recent regulations by China’s NPPA aim to promote responsible gaming habits, particularly among minors, leading to investor concerns and market volatility. Nevertheless, the approval of new online games and the government's support for e-sports suggest a shift towards fostering industry growth and innovation.

Overall, China's gaming market remains poised for continued expansion, fuelled by a combination of technological advancements, government support, and a robust domestic consumer base. Stakeholders are encouraged to navigate regulatory challenges while capitalizing on emerging opportunities to drive sustainable growth and innovation within the industry.

US Gaming industry

US is the second largest market in terms of gaming revenue. The US gaming market is rebounding after a dip in player engagement in 2022, with sales projected to exceed US$205bn by 2026. Innovations in mobile gaming, a resurgence in in-app purchases, and advancements in cloud gaming are driving positive momentum. The Microsoft–Activision Blizzard merger and increased M&A activity signal a favourable environment for industry consolidation and innovation. Breakthroughs in mobile and cloud gaming are expected to shape the industry's trajectory in 2024, offering differentiated opportunities for investors. Key players like Microsoft, Apple, and Netflix are spearheading initiatives to capitalize on emerging trends and consumer preferences.

Japan Gaming Industry

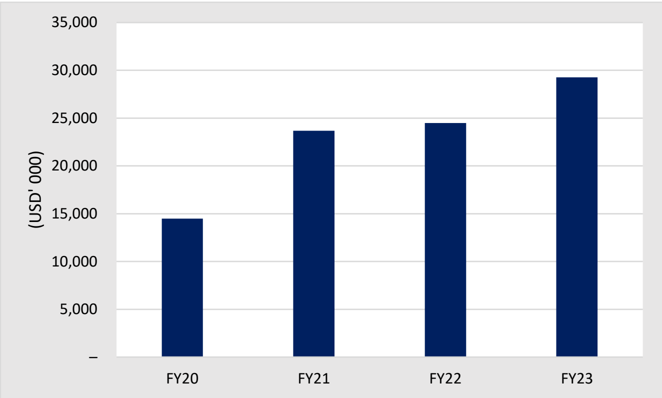
Japan is the third largest market in terms of gaming revenue. Japan's gaming industry remains stable amidst global layoffs, with local studios increasing hiring and salaries. Despite initial boosts from the pandemic, oversaturation and increased competition have led to downsizing in other countries. Japanese studios are striving to attract and retain talent, driven by demographic challenges and a shrinking workforce. The country's emphasis on long-term employment and loyalty, coupled with a robust domestic market and a strong presence in mobile gaming, contributes to its resilience. Challenges persist, including concerns about the impact of artificial intelligence, but Japan's gaming industry appears optimistic about its future prospects.

Investment thesis

Growing and diversified. The gaming industry continues to experience robust growth, presenting lucrative opportunities across various segments of the value chain, including gaming design, outsourcing, publishing, equipment, and IT services. As the industry expands, each knot of the value chain stands to benefit from increased demand and investment. Of particular interest is the outsourcing segment, which is poised for significant growth alongside the gaming industry. As gaming companies streamline their workforce, there is a growing need for external support, especially in art outsourcing. The proliferation of new games and updates, coupled with the rise of e-sports, underscores the heightened demand for art outsourcing services.

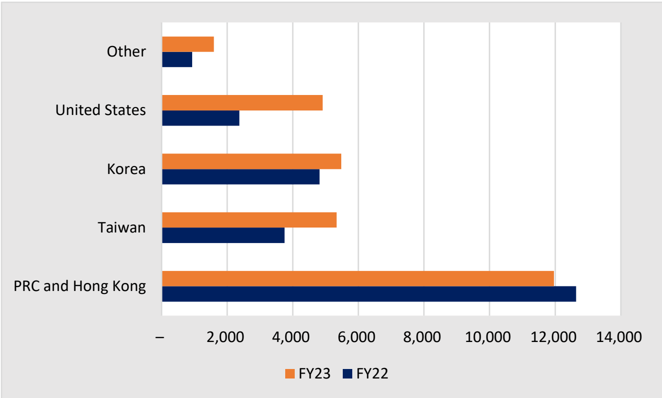
To capitalize on emerging opportunities and reduce reliance on specific regions, Winking Studios is strategically diversifying its business by securing contracts with game developers in Japan and Korea. By expanding its market presence in these regions, the company aims to strategically offset the previous downturn faced in the Chinese market due to changes in its national gaming regulations and to achieve a more balanced geographical revenue distribution. To facilitate market entry, Winking has bolstered its business development team, tasked with penetrating these harder-to-reach markets while maintaining a strong foothold in China and Hong Kong. This approach aims to sustain market share in established regions while fostering growth in emerging markets, thereby enhancing the company's overall revenue stability and expansion prospects.

Figure 9: Winking's revenue FY20 to FY23



Source: Company, KGI Research

Figure 10: Revenue growth by geographical region



Source: Company, KGI Research

Employment edge. With a larger workforce, the company benefits from economies of scale, enabling it to optimize operational efficiency and reduce production costs. This scalability positions Winking to competitively price its services while maintaining robust profit margins. Additionally, Winking's strategic presence in key Asian markets, particularly China, provides access to a diverse talent pool and allows the company to tap into lower labour costs. As Winking continues to expand its workforce and geographical footprint, it enhances its ability to capture market share and capitalize on emerging opportunities in the global gaming industry.

Despite the presence of over 1,000 art outsourcing companies globally, few have achieved the growth seen by Winking. Many smaller companies struggle to support growth beyond 80 to 100 employees due to inadequate management controls. Winking addresses this challenge by acquiring smaller firms, providing them with expertise and systems to manage larger projects effectively. This strategy benefits both the acquired companies and contributes to Winking's overall growth. With the majority of its workforce located in Nanjing, Winking capitalizes on lower labour costs and readily available talent. The company plans to continue growing both through acquisitions of profitable studios and by expanding its internal team of artists to handle larger projects in developing regions. With a steady stream of talented graduates from local art schools and an intensive in-house training program, Winking ensures a consistent supply of skilled staff to support its growth trajectory and maintain its profit margins.

Figure 11: 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%
Indirectly held					
1	Held prior to listing	Nanjing Winking Entertainment Limitied	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 Entertainment Investment Ltd.	Hong Kong	Original Intellectual Licensing Development, Intellectual Property Licensing	100%
4		Winking Art Limited	Hong Kong	Art Outsourcing	100%

Source: Company, KGI Research

Favourable market concentration. Winking Studios stands out in the competitive landscape of the art outsourcing sector. Large game developers often gravitate towards partnering with established firms capable of handling substantial projects and maintaining confidentiality. As market concentration in the art outsourcing sector increases, major gaming companies increasingly turn to larger outsourcing firms, assigning a larger portion of their projects to them. Positioned among the industry's largest players, Winking benefits from this trend, positioning itself to secure more contracts. By strategically expanding its artist and sales teams and enhancing infrastructure, Winking is equipped to manage larger projects and secure recurring orders from major developers. With its strategic positioning, strong client relationships, and efficient cost structure, Winking presents an attractive investment opportunity with the potential for sustained growth and profitability in the foreseeable future.

Valuations and peer comparison

We initiate Winking with an **OUTPERFORM** recommendation at **S$0.34 post-full dilution** and **S$0.47 pre-dilution** using a DCF analysis. Our valuation is based on conservative assumptions, including a cost of equity of 12.0% and a terminal growth rate of 2.0%.

With anticipated growth in the gaming market across various regions and its strategic inorganic expansion plans, Winking is poised to expand its market share, driving both top and bottom-line growth. Additionally, leveraging its cost-effective workforce, the company is well-positioned to maintain margins and enhance net profits.

Figure 12: DCF model

Valuation	2024F	2025F	2026F	2027F	2028F
Unlevered Free Cash Flow		Y1	Y2	Y3	Y4
EBIT	3,949	4,705	5,477	6,329	7,257
Tax rate	17%	17%	17%	17%	17%
EBIT * (1-t)	3,278	3,905	4,546	5,253	6,023
Add: Depreciation and Amortisation	1,690	1,881	2,170	2,596	3,211
Less: Increase working capital	(1,247)	(629)	(642)	(707)	(769)
Less: Capex	(1,111)	(1,333)	(1,560)	(1,809)	(2,081)
Unlevered Free Cash Flow	2,609	3,824	4,514	5,333	6,385
Terminal value					41,669
Discounted value	2,609	3,416	3,602	3,801	4,065
Total enterprise value	59,161				
FY2024 Debt	–				
FY2024 Cash	38,552				
Equity value/market capitalisation	97,713				
Before dilution					
Target share price (USD)	0.349				
Target share price (SGD)	0.475				
After dilution*					
Target share price (USD)	0.252				
Target share price (SGD)	**0.343**				
Curent share price	0.250				
Upside/(Downside) %	37.1%				

**Full dilution assumes the successful placement of 108,000,000 new ordinary shares announced on 9 April 2024.*

Source: KGI Research

Peer comparison

While numerous global animation and development firms operate art divisions, Keywords Studios PLC (KWS LN) distinguishes itself as the leader in the art outsourcing market, making it the most comparable peer to Winking Studios. Keywords Studios is renowned as the largest technical and creative solutions provider within the video games sector, it boasts a vast operational footprint spanning over 25 countries and encompassing more than 70 studios, with a workforce exceeding 12,000 employees worldwide. Notably, the company has strategically expanded its reach through a series of over 60 acquisitions since 2013, underscoring its commitment to geographical expansion and inorganic revenue growth.

Figure 13: Peer comparison chart

Bloomberg Ticker	Company Name	Last Price (local $)	Currency Adj. Market Cap (US$ m)	Dividend Yield (%) FY23	Dividend Yield (%) FY24F	Net Gearing (%)*	P/E (X) 12M	P/E (X) Forward	P/B (x) FY23	P/B (x) FY24F	YTD Price Performance (%)	1YR Price Performance (%)
WKS SP	**WINKING STUDIOS LTD**	**SGD 0.25**	**51**	**314.0**	**-**	**-64.4**	**26.2**	**12.2**	**2.1**	**-**	**19.0**	**25.0**
	London											
KWS LN	KEYWORDS STUDIOS PLC	GBP 1139.00	1,123	0.1	0.2	19.1	52.5	10.7	2.5	1.6	-31.5	-57.8
	Japan											
4816 JP	TOEI ANIMATION CO LTD	JPY 2633.00	3,507	1.2	0.9	-58.3	28.3	34.0	4.7	4.3	-30.5	-4.4
6460 JP	SEGA SAMMY HOLDINGS INC	JPY 2030.50	3,107	2.3	2.2	-36.4	9.2	16.9	1.7	1.3	3.0	-19.9
3657 JP	POLE TO WIN HOLDINGS INC	JPY 492.00	119	3.2	3.3	-20.5	N/A	351.4	1.3	-	1.9	-46.2
4728 JP	TOSE CO LTD	JPY 685.00	34	3.4	-	-47.5	N/A	N/A	0.9	-	-1.9	-7.3
	Average		**1,692**	**2.5**	**2.1**	**(40.7)**	**18.8**	**134.1**	**2.1**	**2.8**	**(6.9)**	**(19.5)**
	Median		**1,613**	**2.8**	**2.2**	**(41.9)**	**18.8**	**34.0**	**1.5**	**2.8**	**0.0**	**(13.6)**
	Taiwan											
6882 TT	REALLUSION INC	TWD 31.50	22	-	-	-79.2	25.6	N/A	2.9	-	-24.2	-26.1

*Negative Net Gearing = net cash position

Source: Bloomberg

Key Risks

Regulatory risks. The Chinese regulatory landscape may pose a risk to Winking Studios as uncertain changes in gaming regulations made by Chinese regulatory bodies may require game developers to adjust or delay game releases to comply with new standards. This uncertainty could disrupt art production projects received from both Chinese and global game developers, potentially impacting Winking's revenue stream.

Currency risks. Winking Studios reports its financials in USD, exposing it to currency risks. Fluctuations in exchange rates, particularly against currencies such as RMB, TWD, JPY, and KRW, can impact the conversion of revenue earned from clients in different countries. High volatility in currency markets, exacerbated by factors like interest rate changes, may lead to reduced revenue value when converted to USD, affecting Winking's financial performance.

Technology risk. The emergence of Artificial Intelligence (AI) poses a technological risk to Winking Studios' traditional art outsourcing business model. As AI technology advances, there is a possibility of it replacing certain aspects of the art outsourcing scene, potentially reducing the demand for human artists and impacting Winking's competitive position in the market.

Operational risk. With Acer as the majority shareholder of Winking Studios, there is a risk of operational interference and conflicting corporate strategies. Divergent agendas between Winking's management and Acer could lead to disagreements on key decisions, such as corporate strategy and approval processes. This discord may create uncertainty and hinder the cohesive direction of the company, impacting its long-term growth and stability.

Financial Summary

FYE 31 December					
INCOME STATEMENT (USD' 000)	**2022**	**2023**	**2024F**	**2025F**	**2026F**
Revenues	**24,498.0**	**29,281.0**	**37,030.0**	**44,436.0**	**51,990.1**
Cost of sales	(18,050.0)	(19,947.0)	(25,045.3)	(30,054.3)	(35,163.6)
Gross profit	**6,448.0**	**9,334.0**	**11,984.7**	**14,381.7**	**16,826.6**
Other operating income	146.0	124.0	111.6	103.8	96.5
Other losses - net	(120.0)	13.0	(148.1)	(177.7)	(208.0)
Distribution and marketing	(1,013.0)	(1,548.0)	(1,676.7)	(2,012.0)	(2,354.1)
Administrative expenses	(4,603.0)	(6,368.0)	(7,139.0)	(8,566.8)	(10,023.1)
Expected credit gains/(losses)	(32.0)	(111.0)	(74.1)	(88.9)	(104.0)
Profit from operation	826.0	1,444.0	3,058.5	3,640.1	4,234.0
Interest income	9.0	68.0	37.0	44.4	52.0
Finance expenses	(60.0)	(89.0)	(70.8)	(67.6)	(63.8)
Net finance (expense)/income	(51.0)	(21.0)	(33.7)	(23.2)	(11.8)
Profit before income tax	**775.0**	**1,423.0**	**3,024.8**	**3,616.9**	**4,222.2**
Income tax (expense)/credit	262.0	357.0	890.7	1,065.1	1,243.3
Profit	**1,037.0**	**1,780.0**	**3,915.5**	**4,681.9**	**5,465.5**
BALANCE SHEET (USD' 000)	**2022**	**2023**	**2024F**	**2025F**	**2026F**
Cash and cash equivalents	6,057.0	16,423.0	38,551.5	42,183.1	46,669.6
Other current assets	6,679.0	7,345.0	10,296.1	12,355.3	14,455.7
Total current assets	**12,736.0**	**23,768.0**	**48,847.6**	**54,538.4**	**61,125.3**
Property, plant and equipment	2,307.0	2,255.0	2,777.9	3,287.8	3,695.0
Intangible assets	243.0	203.0	160.6	102.5	28.5
Other non-current assets	4,198.0	4,277.0	4,124.3	3,980.8	3,845.8
Total non-current assets	**6,748.0**	**6,735.0**	**7,062.8**	**7,371.1**	**7,569.4**
Total assets	**19,484.0**	**30,503.0**	**55,910.4**	**61,909.4**	**68,694.7**
Trade and other payables	4,504.0	5,402.0	7,018.3	8,422.0	9,853.7
Loans and contract liabilities	137.0	44.0	131.4	157.6	184.4
Other current liabilities	920.0	993.0	989.2	966.3	926.4
Total current liabilities	**5,561.0**	**6,439.0**	**8,138.9**	**9,545.9**	**10,964.5**
Lease liabilities	1,901.0	1,687.0	1,626.1	1,536.2	1,437.4
Other non-current liabilities	892.0	930.0	930.0	930.0	930.0
Total non-current liabilities	**2,793.0**	**2,617.0**	**2,556.1**	**2,466.2**	**2,367.4**
Total liabilities	**8,354.0**	**9,056.0**	**10,695.0**	**12,012.1**	**13,331.9**
Unitholders' funds and reserves	11,130.0	21,447.0	45,215.4	49,897.3	55,362.8
Total liabilities and equity	**19,484.0**	**30,503.0**	**55,910.4**	**61,909.4**	**68,694.7**
CASH FLOW STATEMENT (USD' 000)	**2022**	**2023**	**2024F**	**2025F**	**2026F**
Profit before tax	**775.0**	**1,423.0**	**3,024.8**	**3,616.9**	**4,222.2**
Adjustments	1,524.0	2,009.0	1,689.9	1,880.8	2,169.8
Operating cash flows before WC changes	**2,299.0**	**3,432.0**	**4,714.7**	**5,497.7**	**6,391.9**
Change in working capital	(314.0)	(10.0)	(1,247.4)	(629.3)	(641.9)
Interest received	9.0	68.0	–	–	–
Income tax paid	(15.0)	(21.0)	890.7	1,065.1	1,243.3
Cash flows from operations	**1,979.0**	**3,469.0**	**4,358.0**	**5,933.4**	**6,993.4**
Additions to property, plant and equipment	(1,601.0)	(630.0)	(1,110.9)	(1,333.1)	(1,559.7)
Others	(145.0)	89.0	(41.5)	(42.6)	(43.8)
Cash flows from investing	**(1,746.0)**	**(541.0)**	**(1,152.4)**	**(1,375.7)**	**(1,603.5)**
Proceeds from share issuance, net of share issue exp	**–**	**8,613.0**	**19,852.9**	**–**	**–**
Cash capital increase	–	–	–	–	–
Principal payments of lease liabilities	(790.0)	(1,031.0)	(930.0)	(926.2)	(903.3)
Interest paid	(60.0)	(89.0)	–	–	–
Other financing cashflow	–	–	–	–	–
Cash flows from financing	**(850.0)**	**7,493.0**	**18,922.9**	**(926.2)**	**(903.3)**
FX Effects, Others	(604.0)	(55.0)	–	–	–
Net increase/(decrease) in cash	**(1,221.0)**	**10,366.0**	**22,128.5**	**3,631.5**	**4,486.6**
Beginning Cash	7,278.0	6,057.0	16,423.0	38,551.5	42,183.1
Ending cash	**6,057.0**	**16,423.0**	**38,551.5**	**42,183.1**	**46,669.6**
KEY RATIOS	**2022**	**2023**	**2024F**	**2025F**	**2026F**
DPS (SGD cents)	N/A	0.50	0.55	0.66	0.77
Dividend yield (%)	N/A	2.0	2.2	2.6	3.0
NAV per share (SGD cents)	N/A	10.4	15.9	17.5	19.4
Price/NAV (x)					
Profitability					
EBITDA Margin (%)	9.3	11.3	12.9	12.5	12.4
Net Margin (%)	4.2	6.1	10.6	10.5	10.5
ROE (ex. Property FV gain) (%)	N/A	8.3	8.7	9.4	9.9
ROA (ex. Property FV gain) (%)	N/A	5.8	7.0	7.6	8.0
Financial Structure					
Interest Coverage Ratio (x)	13.8	16.2	43.2	53.8	66.4
Gearing Ratio (%)	N/A	N/A	N/A	N/A	N/A

**Our forecasts excludes any past and future acquisitions due to the lack of any detailed statements of the acquired companies.*

Appendix

We visited Winking Studio's Nanjing offices, in China, from 31 March to 3 April. Its Nanjing offices hold majority of its employees with art outsourcing being the main service provided. The office buildings are located within close proximity of one another.

Figure 14: Entrance of office

Source: KGI Research

Figure 15: Multiple rooms with employee access needed

Source: KGI Research

Figure 16: Gym located in the office

Source: KGI Research

Figure 17: Pantry for employees on every level

Source: KGI Research

Figure 18: Conference room for events and classes

Source: KGI Research

Figure 19: Room with paintings and sculptures made by employees

Source: KGI Research

Figure 20: Employees hard at work drawing 3D animations

Source: KGI Research

Figure 21: Information security training session being held

Source: KGI Research

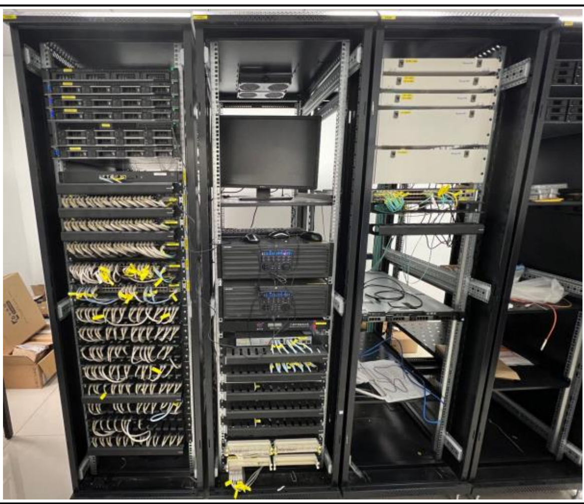
Figure 22: Motion capture room – screen view

Source: KGI Research

Figure 23: Motion capture room

Source: KGI Research

Figure 24: Server room



Source: KGI Research

Figure 25: Rest area for employees

Source: KGI Research

Figure 26: Entrance of Building A11

Source: KGI Research

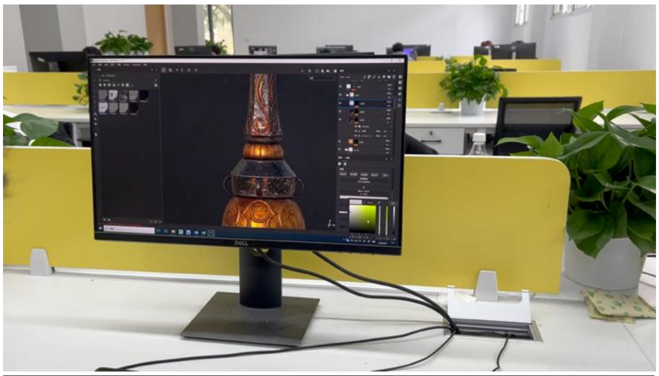
Figure 27: Reception area of Building A11

Source: KGI Research

Figure 28: Picture with the Nanjing management team

Source: KGI Research

Figure 29: Video of trainee drawing a 3D sculpture



Source: KGI Research

Figure 30: Video of employee filming a motion capture scene for in-game motion

Source: KGI Research

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