KGI

UPDATE | MEDIA ▪ SINGAPORE

WINKING STUDIOS LIMITED

(WKS SP / WKS.SI)

FY26 investment weighs on margins; recovery shifts to FY27

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OUTPERFORM

Last close (S$)	0.21
12M Target Price (S$)	0.29
Previous TP (S$)	0.30
Previous Recommendation	OP
Upside / (Downside) (%)	36.23
TRADING DATA	
Market Cap (S$mn)	92.36
Issued Shares (mn)	439.83
3M Avg Daily Vol (mn)	0.06
3M Avg Daily Val (S$mn)	0.01
Free Float (%)	22.80
MAJOR SHAREHOLDERS (%)	
Acer Group (total)	64.00
Management Team (total)	13.20

Investment Highlights

- **Core art outsourcing supported 21% revenue growth.** Winking Studios' 1H26 revenue increased 21.1% YoY to US$23.5mn, including organic growth of 8.9%. Art Outsourcing revenue rose 25.4% to US$19.9mn and accounted for 85.0% of group revenue. The cumulative number of AAA titles supported increased from 117 at end-FY25 to 142 on 30 June 2026.
- **Revenue growth did not translate into earnings growth.** Gross profit declined 4.1% to US$5.6mn despite the increase in revenue, with gross margin falling 6.2ppts to 24.0%. Adjusted EBITDA declined 49.2% to US$1.2mn, while the group recorded a net loss of US$2.5mn compared with a US$0.9mn profit in 1H25. Management attributed the margin decline to Mineloader's seasonally softer first quarter, US$0.9mn of internal resources allocated to AI-enabled development and upfront expenditure on Ampera.
- **FY26 is now expected to represent the low point in profitability.** We lower FY26F revenue by 14.4% to US$48.0mn and forecast an adjusted EBITDA loss of US$0.3mn, compared with our previous forecast of a US$1.5mn profit. Our forecast implies 2H26 revenue of US$24.6mn and an adjusted EBITDA loss of approximately US$1.6mn, reflecting a full six months of investment in Ampera and AI-enabled development.
- **Bookings support near-term activity, but the FY27 recovery requires execution.** Indicative 24-month bookings stood at US$51.6mn as of 30 June 2026, including US$22.4mn expected for 2H26. We forecast FY27F revenue growth of 33.0% to US$63.9mn and adjusted EBITDA of US$5.3mn. This assumes conversion of Ampera's larger project pipeline, higher billable utilisation within Game Development and a recovery in gross margin to 31.0%.

Financials & Key Operating Statistics

YE Dec (US$'mn)	2024	2025	2026F	2027F	2028F
Revenue	31.9	45.5	48.0	63.9	74.1
PATMI	0.5	0.3	(7.3)	(2.7)	0.8
EPS (US$ cents)	0.15	0.07	(1.50)	(0.56)	0.17
EPS growth (%)	(79%)	(52%)	(2134%)	(63%)	(130%)
DPS (S$ cents)	0.02	0.02	-	-	-
Div Yield (%)	0.1%	0.1%	-	-	-
Net Profit Margin (%)	1.6%	0.7%	(15.2%)	(4.2%)	1.1%
Net Gearing (%)	-	-	(39.3%)	(39.5%)	(40.7%)
P/E (x)	100.4x	210.3x	N/A	N/A	93.5x
P/B (x)	1.9x	1.5x	1.4x	1.4x	1.3x

Source: Company data, KGI Research estimates

Valuation & Action.

We maintain our **OUTPERFORM** rating on Winking Studios with a lowered 12-month target price of **S$0.29**, from S$0.30 previously, reflecting our revised DCF valuation. The investment case is increasingly dependent on a recovery in earnings and cash flow from FY27.

Risks.

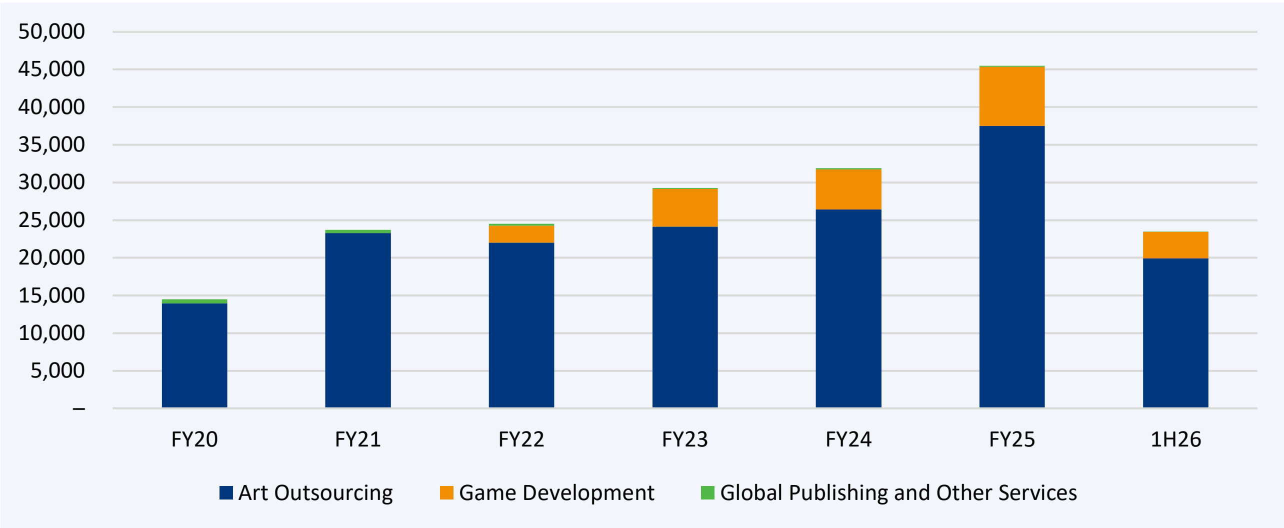
Key downside risks include (i) slower conversion of indicative bookings; (ii) delays in Ampera project awards; (iii) a slower return of AI-development staff to billable projects; (iv) weaker-than-forecast gross-margin recovery; (v) acquisition and integration risks; (vi) further cash outflows from expansion; (vii) USD/SGD exchange-rate fluctuations; and (viii) dilution from deferred and performance-linked share issuances.

Business Updates

Art Outsourcing remained the main growth driver

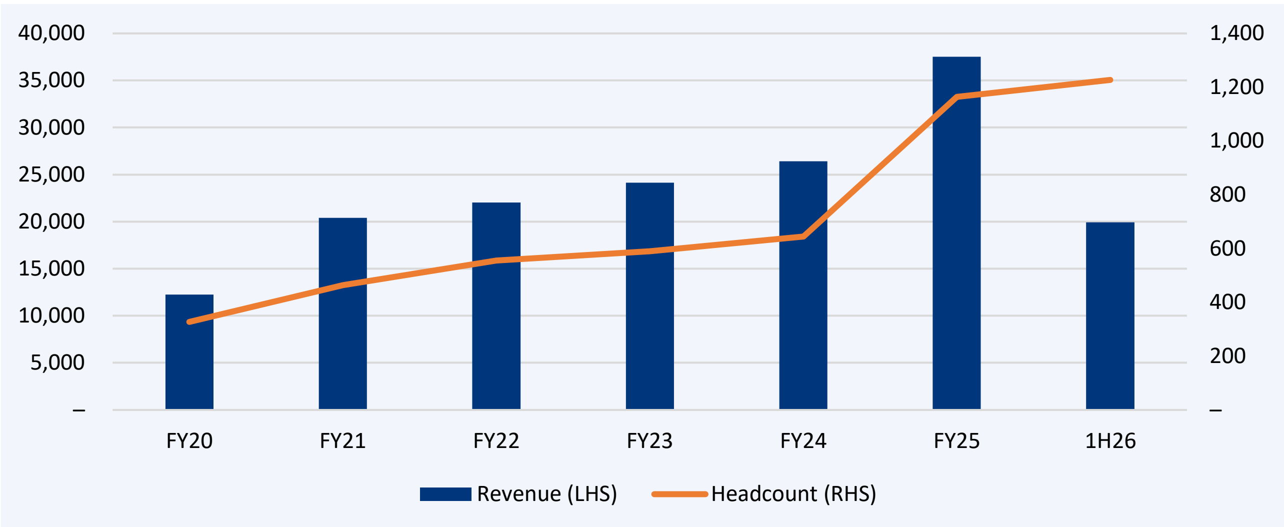
Group revenue increased 21.1% YoY to US$23.5mn in 1H26, with organic revenue growth of 8.9%. Art Outsourcing revenue rose 25.4% to US$19.9mn, supported by the additional first-quarter contribution from Mineloader and a full six-month contribution from Vertic Studios. The cumulative number of AAA titles supported by the group increased from 117 at end-FY25 to 142 as of 30 June 2026. Follow-up projects represented 37.4% of revenue, compared with 38.8% in 1H25, indicating that existing customer relationships continued to contribute a significant portion of activity. Game Development revenue increased only 2.3% to US$3.5mn. Growth was limited by the allocation of approximately US$0.9mn of internal development resources to AI-enabled workflows and client applications rather than billable work.

Figure 1: Revenue growth by segment



Source: Company, KGI Research

Figure 2: Art outsourcing revenue vs headcount



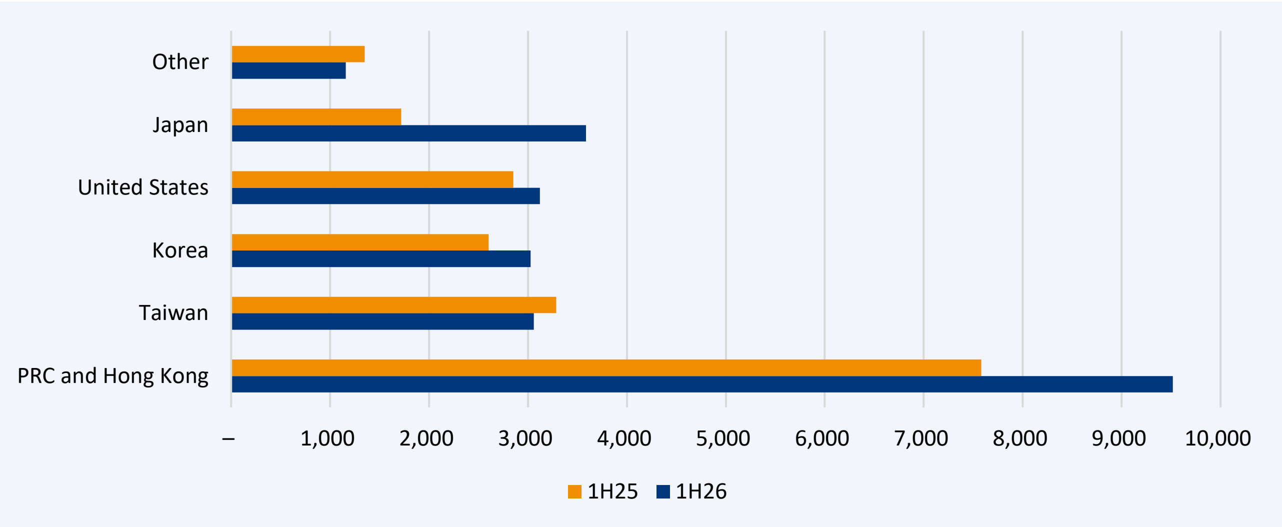
Source: Company, KGI Research

Geographical diversification was led by Japan

Mainland China and Hong Kong remained Winking's largest market, contributing US$9.5mn or 40.6% of revenue. Japan revenue more than doubled to US$3.6mn and represented 15.3% of group revenue, while the United States contributed US$3.1mn or 13.3%.

The increase in Japan provides evidence that Winking's revenue base is becoming more geographically diversified. However, Western-market exposure remains relatively modest compared with the size of the addressable market, supporting the rationale for building Ampera's customer-facing and development capabilities in North America.

Figure 3: Revenue by geography



Source: Company, KGI Research

Strategic investment reduced reported margins

Gross profit declined 4.1% YoY to US$5.6mn despite the increase in revenue, resulting in gross margin falling by 6.2 percentage points to 24.0%. The decline reflected Mineloader's seasonally softer first-quarter contribution; resources allocated to AI-enabled game development; and initial investment in Ampera's team, infrastructure and commercial capabilities.

Management estimates that underlying gross margin would have been 30.1% after excluding these factors, broadly unchanged from 30.2% in 1H25. This suggests that customer pricing and the economics of Winking's established art-outsourcing operations remained relatively stable. Distribution and marketing expenses increased 52.3% to US$1.6mn, mainly due to commercial investment at Vertic and Ampera. Administrative expenses increased 40.4% to US$6.1mn, reflecting the additional consolidation of Mineloader, costs from Vertic and Ampera, and higher share-based compensation. Adjusted EBITDA consequently declined from US$2.4mn to US$1.2mn. After US$0.7mn of share-based compensation, US$0.6mn of acquisition and integration costs, US$0.6mn of foreign-exchange losses and US$0.4mn of acquisition-related amortisation, the group recorded a statutory net loss of US$2.5mn.

Cash generation weakened during the investment period

Winking recorded a US$5.3mn operating cash outflow in 1H26, compared with an inflow of US$0.6mn in 1H25. The outflow reflected strategic investment, higher employee wages and bonuses following the increase in headcount, and Mineloader's seasonally softer first quarter. Separately, contract assets increased by US$2.9mn from 31 December 2025 to 30 June 2026, reaching US$9.1mn, reflecting work completed but not yet billed. Management noted that almost all contract assets from the previous reporting period had subsequently been converted into receivables or cash, providing some comfort over their recoverability.

The group ended June 2026 with US$23.2mn of cash and US$1.4mn of bond investments. After US$4.0mn of bank borrowings, net cash including bond investments was approximately US$20.6mn, excluding lease liabilities. This provides capacity to fund the current investment programme and evaluate selective acquisitions, although cash conversion remains an important factor to monitor.

Ampera expands access to larger Western projects

The acquisition of Studios Ampera in April 2026 established Winking's first dedicated North American studio. Founder Claude Bordeleau joined Winking as Chief Revenue Officer and is leading the group's global commercial strategy. Winking invested approximately US$0.4mn in Ampera during 1H26 to build its team, technology infrastructure and market presence. Ampera has since been invited to bid for several larger, integrated projects. These opportunities offer larger contract values and longer project durations but also carry longer sales cycles, with awards currently anticipated in 2027. Our forecasts conservatively assume no significant Ampera contribution in FY26. FY27F growth nevertheless requires the conversion of part of this pipeline, making the timing of contract awards an important forecast sensitivity.

AI-enabled development could broaden the service offering

Winking allocated approximately US$0.9mn of internal resources to AI-enabled development during 1H26. The group has secured initial AI-enabled coding and co-development projects, although revenue remains small. The investment is intended to allow Winking to provide a broader combination of art, engineering and full-game development services. At the same time, AI-generated art accounted for less than 1% of art-services revenue over the past three years. Winking therefore continues to view human creativity, artistic judgement and quality control as central to its core art-outsourcing business.

Outlook

Bookings support 2H26 revenue growth

Indicative bookings for the next 24 months stood at US$51.6mn at 30 June 2026, above both June and December 2025 levels. Of this amount, US$22.4mn is expected for 2H26, subject to final customer confirmation.

Figure 4: FY26F revenue forecast

FY26F revenue bridge	US$mn
1H26 reported revenue	23.5
Indicative bookings expected for 2H26	22.4
Additional revenue required	2.1
FY26F revenue	**48.0**

Source: KGI Research

The forecast implies 2H26 revenue of US$24.6mn, approximately 4.7% above 1H26 and consistent with management's expectation that second-half revenue will exceed that of the first half.

PC and console recovery supports medium-term outsourcing demand

The PC and console market returned to growth in 2025 after several years of post-pandemic stagnation. Newzoo estimates that global PC and console software revenue increased 7% in 2025 and forecasts it to reach US$103.7bn by 2028. PC and console revenue are projected to grow at CAGRs of 6.6% and 4.4%, respectively, between 2025 and 2028.

Premium releases were an important contributor to the recovery. PC premium-game revenue increased 11.8% globally in 2025, while premium spending also grew across major Western markets. A larger release pipeline and rising production complexity should support demand for external art, animation and development capacity. Winking's experience in AAA production and its relationships with 22 of the world's 25 largest game publishers position it to participate in this recovery.

The broader gaming market also remains constructive. BCG forecasts global gaming revenue to reach US$350bn by 2030, supported by new content, cloud distribution, user-generated content and wider adoption across devices. These trends should increase the volume and complexity of content required from publishers and developers.

External development is becoming more integrated into production

The 2026 XDS Insights Report, based on responses from more than 250 industry professionals, describes external development as an increasingly central part of modern game-production pipelines. Partnerships are also shifting towards longer-term collaboration, with coordination and governance replacing delivery and security as the industry's main concerns. This favours larger service providers capable of supporting multiple stages of development across several locations. Winking's Asian production network, AAA art capabilities, Game Development business and North American customer-facing presence through Ampera fit this direction. Its ability to combine local commercial access with lower-cost Asian delivery could become more valuable as publishers consolidate work among fewer, broader service partners.

However, the opportunity is unlikely to be distributed evenly. Publishers will continue to assess vendors on quality, information security, delivery record and the ability to coordinate work across multiple studios. Winking's larger scale expands its addressable market but does not remove the need to convert bids and execute projects successfully.

AI adoption supports Winking's strategy, but commercial acceptance remains limited

BCG estimates that approximately half of game studios are already using AI, principally to improve coding, quality assurance and development efficiency. Separately, the 2026 GDC survey found that 36% of industry professionals use generative AI at work, with code assistance among the most common applications. These findings support Winking's decision to invest in AI-enabled coding and game-development workflows. The investment could allow the group to expand development capacity without a proportionate increase in headcount and offer a broader service to customers.

Commercial adoption nevertheless remains at an early stage. XDS reports that fewer than 10% of clients currently permit AI in contracted external-development work, with customers emphasising disclosure, governance and human oversight. Winking's AI investment is therefore strategically relevant, but a material earnings contribution should not be assumed until pilot projects progress into larger commercial contracts.

FY26 margin assumptions remain conservative

We forecast FY26F gross margin of 20.5%. Given the 24.0% margin reported in 1H26, this implies a 2H26 gross margin of approximately 17.2%. The lower second-half assumption reflects a full period of Ampera operating costs and foregone Game Development revenue while employees work on AI-enabled capabilities. We forecast a FY26F adjusted EBITDA loss of US$0.3mn. Since Winking generated US$1.2mn of adjusted EBITDA in 1H26, our estimate implies a loss of approximately US$1.6mn in 2H26. This is consistent with management's guidance for a modest full-year adjusted EBITDA loss.

FY27 recovery depends on revenue conversion and margin normalisation

We forecast FY27F revenue of US$63.9mn, representing growth of 33.0%. Art Outsourcing revenue is forecast to rise 30.5% to US$53.8mn, while Game Development revenue is forecast to increase 48.0% to US$9.9mn. Gross margin is forecast to recover from 20.5% in FY26F to 31.0% in FY27F as the exceptional investment period concludes, Mineloader's seasonal effects normalise and AI-development resources return to revenue-generating projects. Adjusted EBITDA is forecast to improve from a US$0.3mn loss to a US$5.3mn profit, while adjusted net profit is forecast at US$0.8mn. These assumptions require meaningful conversion of Ampera's pipeline and AI-enabled development opportunities. Delayed project awards or a slower recovery in staff utilisation would reduce FY27 earnings.

Earnings Forecast and Valuation

Earnings forecast revised

We reduce FY26F revenue by 14.4% to US$48.0mn, broadly aligning our forecast with the group's reported first-half revenue and 2H26 indicative bookings. FY27F and FY28F revenue forecasts are largely unchanged. Earnings reductions are greater than the revenue revisions because of the lower FY26 gross margin and a more gradual recovery in adjusted profitability.

US$mn unless stated	FY26F previous	FY26F revised	Change	FY27F previous	FY27F revised	Change	FY28F previous	FY28F revised	Change
Revenue	56.1	48.0	(14.4%)	64.1	63.9	(0.4%)	74.4	74.1	(0.4%)
Adjusted EBITDA	1.5	(0.3)	n.m.	5.6	5.3	(6.1%)	10.3	8.6	(16.0%)
PATMI	(2.4)	(7.3)	n.m.	(0.1)	(2.7)	n.m.	2.2	0.8	(63.3%)

We forecast adjusted net loss of US$3.9mn in FY26F, followed by adjusted net profit of US$0.8mn in FY27F and US$4.1mn in FY28F.

Valuation

We lower our 12-month target price to S$0.286, from S$0.30 previously, based on our revised DCF-derived fair value. This implies 36.2% upside from the current share price of S$0.21. Our DCF applies a 7.12% WACC and a 2.0% terminal growth rate, deriving an enterprise value of approximately US$74.0mn and an equity value of US$93.2mn.

The valuation case is now more dependent on an earnings and cash-flow recovery from FY27. Conversion of Ampera's larger tenders, commercialisation of its AI-enabled game-development capabilities and a recovery in gross margin would support our projected cash flows. Further delays in project conversion, a prolonged investment period or weaker cash generation could result in downside to our forecasts and warrant a review of our valuation assumptions.

Figure 5: DCF Valuation

DCF VALUATION			*Projected*		
All amounts in US$'000 unless otherwise stated					
Year ended 31 Dec	2026	2027	2028	2029	2030
EBIT	(6,718)	(2,265)	1,225	2,447	2,736
Add: Performance share plan	1,800	3,500	3,300	2,000	1,100
Add: Acquisition and integration costs	604	-	-	-	-
Add: FX losses	585	-	-	-	-
Adjusted EBIT	**(3,729)**	**1,235**	**4,525**	**4,447**	**3,836**
Tax rate	17.0%	17.0%	17.0%	17.0%	17.0%
Adjusted EBIT (1-T)	**(3,095)**	**1,025**	**3,756**	**3,691**	**3,184**
(+) D&A	3,387	4,022	4,122	4,311	4,297
(-) Change in NWC	(2,492)	(1,467)	(2,470)	(1,008)	(857)
(-) Capex	(961)	(1,022)	(1,334)	(1,740)	(2,316)
Unlevered Free Cash Flow	**(3,161)**	**2,558**	**4,073**	**5,254**	**4,308**
Terminal Value					85,858
Total FCFF to be Discounted	**(3,161)**	**2,558**	**4,073**	**5,254**	**90,166**
PV of Free Cash Flow	**(3,097)**	**2,340**	**3,478**	**4,188**	**67,093**
Enterprise Value	**74,002**				
(-) Debt	4,000				
(+) Cash	23,200				
Equity Value	**93,202**				
Shares Outstanding ('000)	439,825				
Fair Value / Share (US$)	0.212				
Fair Value / Share (S$)	**0.286**				
Current Share Price (S$)	0.210				
Upside / (Downside)	**36.2%**				

Source: KGI Research

Financial Summary

INCOME STATEMENT (US$'000)	FY24A	FY25A	FY26E	FY27E	FY28E
Revenue	31,899	45,500	48,034	63,871	74,109
Cost of sales	(22,435)	(31,951)	(38,187)	(44,071)	(50,394)
Gross profit	**9,464**	**13,549**	**9,847**	**19,800**	**23,715**
Other income	861	497	-	-	-
Other operating gains/(expenses)	2,944	2,579	3,176	3,702	4,122
Distribution and marketing	(2,160)	(2,530)	(4,323)	(5,748)	(5,929)
Administrative expenses	(9,105)	(10,591)	(12,009)	(15,968)	(16,526)
Expected credit gains/(losses)	23	(75)	(22)	(30)	(34)
EBITDA	**2,027**	**3,429**	**(3,331)**	**1,757**	**5,347**
Depreciation & amortisation	(2,058)	(3,269)	(3,387)	(4,022)	(4,122)
Operating profit (EBIT)	**(31)**	**160**	**(6,718)**	**(2,265)**	**1,225**
Interest income	465	571	139	128	118
Finance expenses	(80)	(153)	(382)	(388)	(370)
Profit before tax	**354**	**578**	**(6,961)**	**(2,525)**	**974**
Income tax (expense)/credit	171	(252)	(348)	(177)	(166)
Net profit (PATMI)	**525**	**326**	**(7,309)**	**(2,701)**	**808**
EPS (US$ cents)	0.15	0.07	(1.50)	(0.56)	0.17
DPS (S$ cents)	0.02	0.02	-	-	-

CASH FLOW STATEMENT (US$'000)	FY24A	FY25A	FY26E	FY27E	FY28E
Profit before tax	354	578	(6,961)	(2,525)	974
Depreciation & amortisation	2,058	3,269	3,387	4,022	4,122
Working capital changes	(1,883)	(1,834)	(2,492)	(1,467)	(2,470)
Tax paid and interest received	433	416	(209)	(49)	(47)
Other operating items	(326)	2,703	2,043	3,759	3,552
Operating cash flow	**636**	**5,132**	**(4,232)**	**3,741**	**6,130**
Capex	(400)	(722)	(961)	(1,022)	(1,334)
Acquisitions / disposals	(2,032)	(13,759)	(331)	-	-
Other investing items	(1,317)	(61)	(366)	(123)	(153)
Investing cash flow	**(3,749)**	**(14,542)**	**(1,657)**	**(1,145)**	**(1,487)**
Equity issuance / (buyback)	29,400	-	(115)	-	-
Principal payments of lease liabilities	(1,230)	(1,463)	(1,621)	(1,742)	(1,977)
Dividends paid	(1,060)	(82)	(83)	(83)	(83)
Proceeds/(payment) of bank borrowings	-	-	4,000	-	-
Other financing items	(80)	(108)	(382)	(388)	(370)
Financing cash flow	**27,030**	**(1,653)**	**1,800**	**(2,213)**	**(2,430)**
Net change in cash	**23,917**	**(11,063)**	**(4,090)**	**383**	**2,213**
Beginning cash	**16,423**	**39,832**	**27,389**	**23,299**	**23,683**
FX changes	**(508)**	**(1,380)**	**-**	**-**	**-**
Ending cash	**39,832**	**27,389**	**23,299**	**23,683**	**25,896**

BALANCE SHEET (US$'000)	FY24A	FY25A	FY26E	FY27E	FY28E
Cash and cash equivalents	39,832	27,389	23,299	23,683	25,896
Trade and other receivables	6,362	9,254	9,475	11,462	12,791
Other current assets	3,595	6,266	7,876	6,682	7,237
Current assets	**49,789**	**42,909**	**40,650**	**41,827**	**45,925**
Property, plant & equipment	1,935	2,098	2,177	2,078	2,332
Intangible assets	1,932	17,245	17,464	16,864	16,262
Other non-current assets	6,607	6,648	6,931	7,086	6,923
Non-current assets	**10,474**	**25,991**	**26,572**	**26,028**	**25,517**
Total assets	**60,263**	**68,900**	**67,223**	**67,855**	**71,441**
Trade and other payables	5,940	7,882	7,302	6,648	6,082
Short-term borrowings	-	-	4,000	4,000	4,000
Contract liabilities	138	327	246	226	206
Other current liabilities	1,192	1,885	1,185	1,363	1,407
Current liabilities	**7,270**	**10,094**	**12,733**	**12,237**	**11,695**
Lease liabilities	1,886	1,098	2,439	2,853	2,955
Other non-current liabilities	1,111	4,697	2,997	2,997	2,997
Non-current liabilities	**2,997**	**5,795**	**5,436**	**5,850**	**5,952**
Total liabilities	**10,267**	**15,889**	**18,170**	**18,087**	**17,647**
Shareholders' equity	49,996	53,011	49,053	49,769	53,794
Total equity	**49,996**	**53,011**	**49,053**	**49,769**	**53,794**

KEY RATIOS & VALUATION	FY24A	FY25A	FY26E	FY27E	FY28E
Revenue growth (%)	8.9%	42.6%	5.6%	33.0%	16.0%
Gross margin (%)	29.7%	29.8%	20.5%	31.0%	32.0%
EBITDA margin (%)	6.4%	7.5%	(6.9%)	2.8%	7.2%
Net profit margin (%)	1.6%	0.7%	(15.2%)	(4.2%)	1.1%
ROE (%)	1.1%	0.6%	(14.9%)	(5.4%)	1.5%
ROA (%)	0.9%	0.5%	(10.9%)	(4.0%)	1.1%
Net debt / equity (x)	-	-	(0.4x)	(0.4x)	(0.4x)
Dividend payout (%)	11.5%	24.0%	-	-	-
P/E (x)	100.4x	210.3x	N/A	N/A	93.5x
P/NAV (x)	1.9x	1.5x	1.4x	1.4x	1.3x
Dividend yield (%)	0.1%	0.1%	-	-	-

Source: Company, KGI Research estimates

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Rating	Definition
Outperform (OP)	We take a positive view on the stock. The stock is expected to outperform the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
Neutral (N)	We take a neutral view on the stock. The stock is expected to perform in line with the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
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