

Kucingko Bhd

Turning Creative Imagination into Captivating Animation

- Kucingko has a strong 17-year track record in the 2D animation industry with the ability to produce world class quality animations which meets the standards of their world-renowned clients in the animated film industry.
- For FY24f-25f, we project topline to grow to RM33.0-RM39.0m respectively, supported by the increase in number of personnel which will allow KB to take on more projects. Thus, we expect the corresponding core net profit to grow at 31.2%-27.1% YoY to RM11.0-13.9m, as margins should improve with the management's aim to take on more complex, higher margin jobs.
- We ascribe a fair value of RM0.585 for KB, by pegging a forward P/E of 21.0x to the FY25f EPS of 2.79 sen. We believe a forward P/E of 21x is justified as it is in line with the average current P/E of selected international peers within the 2D animation production industry.

Investment Highlights

Workforce expansion to increase animation output. As of LPD, Kucingko Bhd (KB) has 243 animation technical personnel. Pursuant to the utilisation of IPO proceeds, KB plans to hire an additional 105 animation technical personnel, with 75 of them based in East Malaysia, as part of KB's initiative to tap into the regional creative talent pool. We understand that, KB intends to utilise the increased workforce to scale up the animation production output to meet growing demand.

Continued uptrend of demand for digital entertainment. Consumption of digital media entertainment has increased over the years, as evident in the increasing number of views on streaming platforms such as YouTube, Netflix, Amazon Prime Video, etc, largely due to the increasing adoption of mobile devices and the internet. The increase in digital entertainment will have spillover effects to the demand for animation which will bode well for KB's prospects.

Malaysia's lower costs and relative proficiency in English stands out over regional peers. Being located in SEA, KB is able to enjoy cost advantages over peers in Europe and Asia Pacific. In addition, we understand from KB's management that Malaysians have an edge over regional SEA peers in terms of understanding certain nuances in English. The combination of both strengths helps position KB in somewhat of a sweet spot, which we expect to favour KB's position in the eyes of potential customers.

World renowned clients cementing Kucingko's high quality and standards. KB is a beneficiary of its subsidiary Inspedia, which has internationally renowned clients such as Warner Bros., Cartoon Network, Xilam Animation etc. Inspedia's ability to serve such clients is a testament to its high standards in providing high quality 2D animation.

Robust contracts and orderbook to provide earnings visibility in the near term. As at LPD, KB has 10 on-going animation projects with contract values of up to RM45.4m and the unbilled orderbook to be fulfilled in in FY24-25 stands at RM 17.4m and RM5.9m respectively.

Company Background

KB's history traces back to 2002, where initially, the business was in proprietary content creation. In 2007, KB shifted the business direction from proprietary content creation to the provision of 2D animation production services. As of LPD, KB has completed 63

IPO Note

Chiang Fong Kai
fkchiang@msec.com.my
(603) 2201 2100

Non-Rated

Share price	RM0.30
Target price	RM0.585
Previous TP	-
Capital upside	95.0%
Dividend return	2.9%
Total return	97.9%

Company profile

Kucingko Bhd operates as an animation company. The Company offers 2D animation production services for animated series and short films. Kucingko serves customers worldwide.

Stock information

Bursa Code	0315
Bloomberg ticker	KUCINGKO MK
Listing market	ACE
Share issued (m)	500.0
Market Cap (m)	150.0
Shariah compliant	No

Major shareholders

	%
Cat Ching	34.6
Koo Hong @ Ku Hong Ha	15.2
Tham Choy Yong	5.0

Earnings snapshot

FYE (Sep)	FY22	FY23f	FY24f
PATMI (m)	8.4	11.0	13.9
EPS (sen)	1.67	2.19	2.79
P/E (x)	17.9	13.7	10.8



animation projects with a combined contract value of RM75.67m and an approximate runtime of 5,015 minutes.

Fig #1 Post-IPO company structure



Source: KB

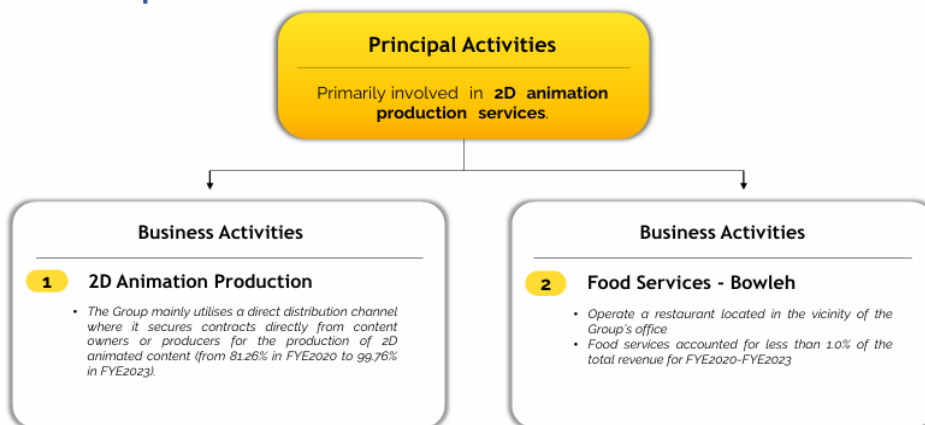
Fig #2 Utilisation of Proceeds

Use of proceeds	RM m'	%	Estimated time frame
Capacity expansion	17.8m	59.20%	Within 36 months
USA sales office	4.4m	14.60%	Within 36 months
Working capital	4.3m	14.20%	Within 12 months
Listing expenses	3.6m	12%	Immediate
Total	30m	100.00%	

Source: KB

Business Segments

Fig #3 Principal Activities



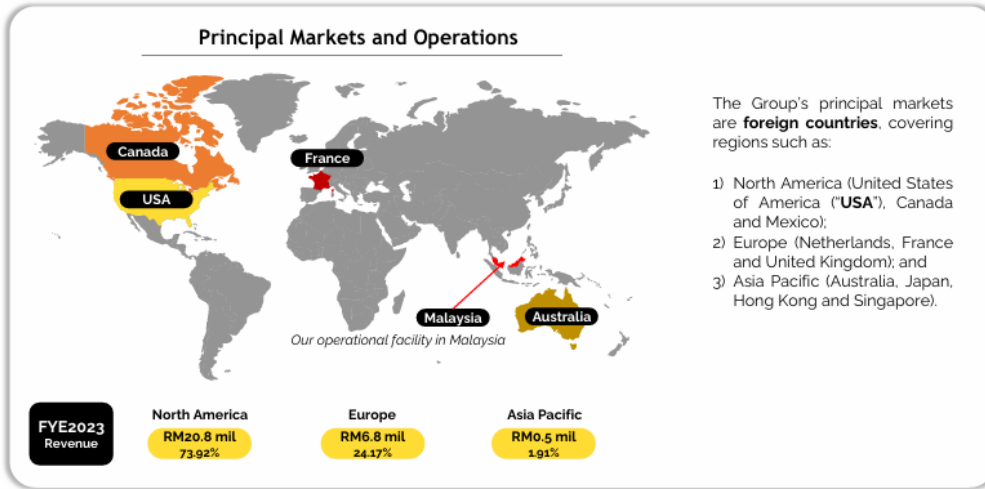
Source: KB

2D animation production service (99.8% of FY23 Revenue). KB's revenue is almost entirely generated through the 2D animation production services created through utilising digitally drawn 2D images, which collectively will form the illusion of movement and be used to produce an animation. The 2D animated contents produced by KB are mainly used in television broadcasting and digital online streaming. KB's projects cover full production of an entire episode, as well as partial production of a certain part of an episode.



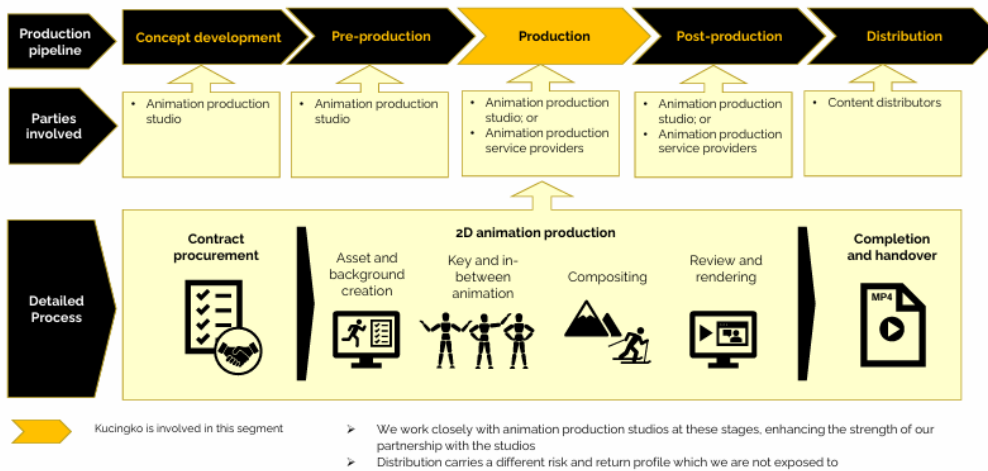
Food Services (0.2% of Revenue). A small proportion of KB's revenue is derived from the provision of food services where KB operates a restaurant located in the vicinity of their office under their subsidiary, Bowleh.

Fig #4 Principal Markets



Source: KB

Fig #5 2D Animation Production Pipeline and Value Chain



Source: KB

Financials

In FY23, KB's net profit rose 4.8% YoY to RM8.4m despite a relatively stronger topline improvement to RM28.2m (+20.0% YoY). The revenue increase is mainly due to the increased contribution from European customers but margins suffered due to the decrease in other operating income, coupled with higher operating expenses arising from higher staff costs and professional fees incurred.

For FY24f & FY25f, we project topline to grow to RM33.0m & RM39.0m respectively, supported by the increase in number of personnel which will allow KB to take on more projects. As a result, we expect the corresponding **core net profit to grow to RM11.0m & RM13.9m (+31.2% & +27.1% YoY)**, as margins should improve with the management's aim to take on more complex, higher margin jobs.



Fig #6 Financial Highlightss

FYE Dec (RM m)	FY22	FY23	FY24f	FY25f	FY26f
Revenue	23.5	28.2	33.0	39.0	46.0
EBITDA	10.4	11.9	15.7	19.9	24.9
EBIT	9.4	10.7	14.3	18.2	22.8
PBT	9.4	10.8	14.4	18.3	23.0
PAT	8.0	8.4	11.0	13.9	17.5
PATMI – Core	8.0	8.4	11.0	13.9	17.5
PATMI – Reported	8.0	2.9	11.0	13.9	17.5
% change YoY – Core PATM	23.1%	4.8%	31.2%	27.1%	25.3%
Core EPS (sen)	1.60	1.67	2.19	2.79	3.49
P/E (x)	18.8	17.9	13.7	10.8	8.6
DPS (sen)	1.3	1.2	0.9	1.1	1.4
Yield (%)	4.5%	4.1%	2.9%	3.7%	4.7%
ROE (%)	52.7%	49.6%	24.3%	18.2%	20.3%
Net Gearing (%)	CASH	CASH	CASH	CASH	CASH

Source: Prospectus, MSSB Research

Valuations

We ascribe a fair value of RM0.585 for KB. Our valuation derived by pegging a forward P/E of 21.0x to the FY25f eps of 2.79 sen. We believe a forward P/E of 21.0x is justified as it is in line with the average current P/E of selected international peers within the 2D animation production industry.

Fig #7 Peer comparison

Company	Market Cap (RM'm)	P/E (x)
KucingKo Berhad	150.0	17.9
Studio Mir Co Ltd	367.8	41.4
Toei Co Ltd	8,391.5	17.2
Xilam Animation SA	128.2	4.0
Avg ex-KB	2,962.5	20.9

Source: Bloomberg, MSSB Research

Investment risks

Dependent on certain major customers. The loss of any one or a few of major customers which collectively represents 87% of FY23's revenue, could adversely affect Kucingko's business operations and financial performance.

Changes in consumer preferences may affect demand for 2D animation. Any changes in consumer preferences such as preference to 3D animation or free social media content may reduce demand for 2D animation.

Exposed to foreign exchange fluctuation. Any strong unfavorable movements in the exchange rates may affect Kucingko profit margins as most of the contracts are mainly transacted in USD and CAD.

Dependent on skilled manpower. Any shortages in the supply of skilled manpower could adversely affect the quality standards and timely delivery of production projects, which in turn may adversely affect Kucingko's reputation, business operations and financial performance.



Friday, 12 Jul, 2024

Disclaimer

Research analyst(s) of MSSB whom produced this report hereby certifies that the views expressed in this report accurately reflect his/her personal opinions about all of the subject corporation(s) and securities in this report. He/She does not carry out, whether for himself/herself or on behalf of MSSB or any other persons did not receive and will not receive any compensation that is directly or indirectly related or linked 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. As of the report date, the analyst whom prepared this report does not have any interest in the following securities covered in this report, unless otherwise stated.

As of Friday, 12 Jul, 2024, the analyst(s), **Chiang Fong Kai**, whose name(s) appears on the front page, who prepared this report, has interest in the following securities covered in this report:

(a) nil.

Stock recommendation guide

BUY	The share price is expected to appreciate more than 10% over the next 12 months
HOLD	The stock price is expected to range between -10% and +10% over the next 12 months
SELL	The share price is expected to fall more than 10% over the next 12 months
TRADING BUY	The share price is projected to rise more than 10% over the next three (3) months due to an ongoing or impending corporate development. The stock price is also expected to be volatile over the next three months
TRADING SELL	The stock price is expected to fall more than 10% over the next three months due to an ongoing or impending corporate developments. The stock price is also expected to be volatile over the next three months
NOT RATED	No recommendation is assigned



JOIN OUR OFFICIAL TELEGRAM
TO GET THE LATEST MARKET UPDATES

M+Online
Equipping Traders For The Win

M+Global
Winning The World