



# Kucingko Bhd

## To Infinity and Beyond

ACE Market  
Media Sector  
SUBSCRIBE  
IPO Price: RM0.30  
Fair Value: RM0.54

### Valuation / Recommendation

We recommend subscribing to Kucingko Berhad (Kucingko) with an **RM0.54 FV based on 20x FY25F EPS**, translating to a 79% potential upside to the IPO price. Our target PE is at a 20% discount to comparable global peers' average, given Kucingko's smaller market capitalisation. We like the stock for its growth prospect in the animation industry, strong balance sheet with a net cash position, and decent net yield.

### Investment Highlights

**Rising profile.** Primarily serving international clients, Kucingko provides 2D animation production services through its subsidiary, Inspidea. Between FY20 and FY23, its revenue nearly doubled, while earnings showed strong growth, with a 3-year CAGR of 31%. This was largely thanks to 1) Clinching higher-value projects, and 2) Better staff productivity. In FY23, Kucingko's average revenue per minute of animation produced reached a peak of approximately USD4,849, which was a 20%-32% increase from previous years. This rise was attributed to securing higher-value projects from new and existing clients, including Customer H and long-time partners Customer B and Customer J. The company's ability to handle complex, high-profile projects such as the recent Lego Monkie Kid Season 5 (for Customer H) is a testament to the improving technical capabilities of Kucingko's staff, boosting its credentials.

**Better staff productivity.** Based on revenue per average animator employed, Kucingko's staff productivity has significantly improved over the years. At its peak, its staff produced an average of 7.8 minutes of animation in FY22, compared to just 5.9 minutes in FY20. Kucingko went on a hiring spree in FY22-23, adding 113 new staff - this partly explains the moderation in average revenue and minutes per animator in FY23.

**Further workforce expansion.** Kucingko plans to hire about 100 skilled technical staff over three years as part of its IPO plans, spreading them across its existing office in Petaling Jaya and two new branch offices in Sabah and Sarawak. This expansion should enable Kucingko to handle up to 7 animation projects concurrently, compared to 3-5 projects before. We expect the hiring to be frontloaded, with 40 new hires expected in FY24 and 60 in FY25. With the addition of new staff, we expect the revenue per average animator employed to decrease slightly to USD26,500 in FY24F before increasing again to USD28,000-29,000 in FY25F-26F. All in all, this should result in strong earnings growth of 15-32% from FY24F-FY26F.

**Risk factors** for Kucingko include (1) Dependency on certain major customers, (2) Dependency on skilled staffs, and (3) Forex risks.

FY Dec	FY22	FY23	FY24F	FY25F	FY26F
Revenue (RM m)	23.5	28.2	34.9	43.0	48.7
EBITDA (RM m)	10.4	11.9	16.1	20.0	22.6
PAT (RM m)	8.0	8.4	11.0	13.4	15.5
PAT Margin (%)	34.0	29.7	31.6	31.2	31.8
EPS (sen)	2.0	2.1	2.2	2.7	3.1
EPS Growth (%)	23.1	4.8	5.6	21.5	15.4
BV Per Share (sen)	3.9	4.5	10.9	12.5	14.4
PE (x)	18.8	17.9	13.6	11.2	9.7
Net Gearing (%)	Cash	Cash	Cash	Cash	Cash
ROE (%)	50.5	46.6	20.2	21.4	21.5

### Business Overview

Kucingko is primarily involved in 2D animation production services through its subsidiary, Inspidea. The group mainly utilises a direct distribution channel where it secures contracts directly from content owners or producers.

### Listing Details

Listing date	26 July 2024
New shares (m)	100.0
Offer for sale (m)	100.0
Funds raised (RM m)	30.0

### Post Listing

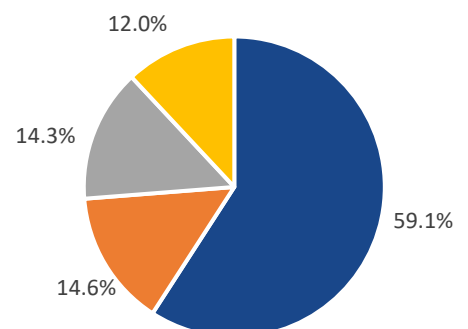
Ordinary shares (m)	500.0
Market cap (RM m)	150.0
Free float	39.6
P/E (FY24F)	13.6

### Top 3 Shareholders

Cat Ching S/B	34.6%
Ku Hong Hai	15.3%
Tham Choy Yong	5.0%

### Utilisation of Proceeds

	RM m
Capacity expansion with new hirings and setting up branch office in Sabah & Sarawak	17.8
Setting up a new USA sales office	4.4
General working capital	4.3
Estimated listing expense	3.6

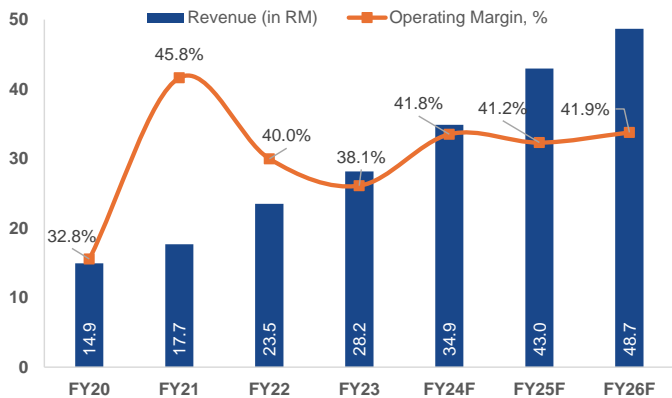


Source: Company, Mercury Securities



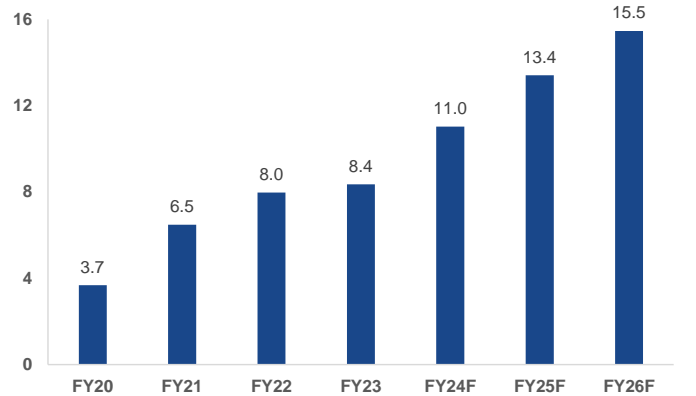
## Financial Highlights and Valuation

**Figure 1: Revenue trend and operating margins, %**



Source: Company, Mercury Securities

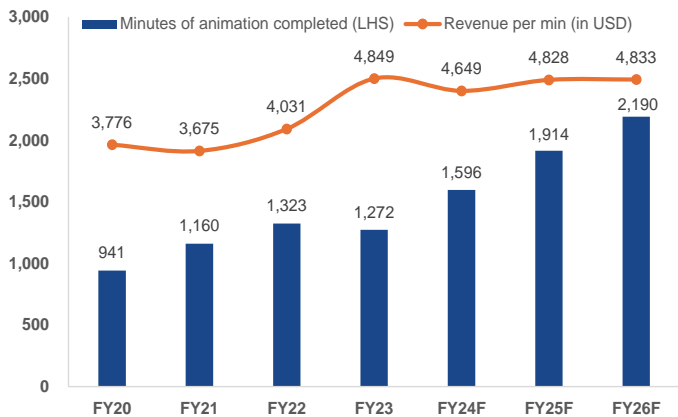
**Figure 2: Earnings trend (in RM m)**



Source: Company, Mercury Securities

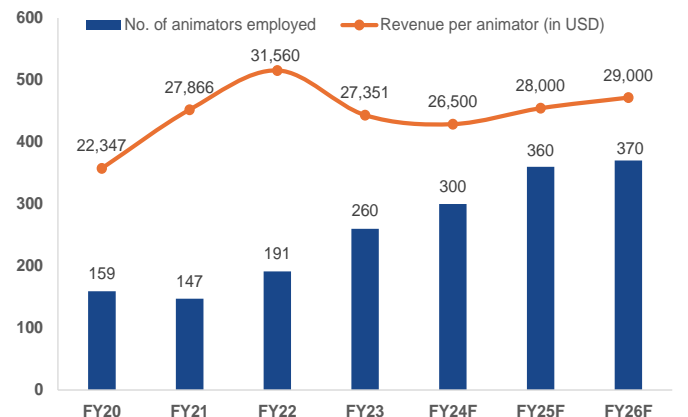
**Supercharged growth.** From FY20 to FY23, Kucingko almost doubled its revenue base, growing at a strong 3-year CAGR of 24%. On the back of better margins, earnings growth was also outstanding, with a 3-year CAGR of 31%. We believe a combination of two key factors contributed to Kucingko's impressive financials over these years, which are: 1) Clinching higher-value projects, and 2) Better staff productivity.

**Figure 3: Revenue per minutes of animation completed**



Source: Company, Mercury Securities

**Figure 4: Revenue per no. of skilled staff employed**



Source: Company, Mercury Securities

**Clinching higher value projects.** Based on the total minutes of animation completed, we can see that Kucingko's average rate per minute has been on the rise, reaching a high of approximately USD4,849/min in FY23 (see Figure 3). We believe this is because the company was able to clinch higher-value projects from its clients. Specifically, in FY22, Kucingko gained a new customer (Customer H) and secured multiple projects with high contract values ranging from RM4-6m each, making Customer H one of the top 3 revenue contributors. Additionally, two other major customers, Customer B (with a 9-year relationship) and Customer J (with an 11-year relationship, but only active again in FY23), have also awarded Kucingko with several high-value projects in recent years.

Being able to deliver high-value projects, which usually entail additional design complexity and more characters/assets to animate, is a testament to the improving technical capabilities of Kucingko's staff. These projects also tend to be high-profile, which further helps boost Kucingko's credentials. We believe this is especially true for some of its latest projects, such as the highly-rated Lego Monkie Kid Season 5 that Kucingko successfully delivered for Customer H.



**Better staff productivity.** According to our calculations based on the revenue per average animator employed metric (see Figure 4), Kucingko's staff productivity has significantly improved over the years. Starting from USD22,347 in FY20, it peaked at USD31,560 in FY22 before moderating to USD27,351 in FY23. This improvement reflects both higher-value jobs secured and an increase in the number of projects undertaken by the company's skilled staff on average. At its peak in FY22, we estimate each employee produced an average of 7.8 minutes of animation, compared to just 5.9 minutes in FY20.

In FY22-23, Kucingko went on a hiring spree, adding a total of 113 new skilled staff (a 77% increase) within two years. This hiring spree partly explained the moderation in average revenue and minutes per animator in FY23, as these new staff members would require training and time to get up to speed.

**Expanding workforce to work on more projects concurrently.** Kucingko intends to employ an additional 100 new skilled technical staff over three years as part of its IPO plans. These new personnel will be spread across its existing Petaling Jaya office and the two new branch offices in Sabah and Sarawak. According to management, an animation project often involves working in a team comprising approximately 50 staff per project. On this basis, Kucingko could undertake up to 7 animation projects concurrently with its expanded workforce post-IPO, vs. just 3-5 animation projects before. With its profile raised from working on popular titles recently, we believe Kucingko will be able to secure more jobs from its existing customers and potential new customers going forward.

**Strong earnings growth of 15-32% in FY24F-26F.** We expect Kucingko to frontload the hiring of new staff and add 40/60 new headcounts in FY24F-25F respectively. Given these new staff, we forecast the revenue per average animator employed would moderate slightly to USD26,500 in FY24F before rising back to USD28,000-29,000 in FY25-26F. All in all, these translate into an impressive 3-year revenue CAGR of 20%, with strong earnings growth of 15-32% over FY24F-26F.

**Healthy balance sheet.** Given its asset-light business model, Kucingko generates strong free cashflow and has a healthy balance sheet with a net cash position even prior to its IPO. This has enabled the company to pay handsome dividends of between 50%-160% of its net profits in the past. Post-listing, Kucingko intends to adopt a formal dividend policy of at least 40% payout.

**RM0.54 FV based on 20x FY25F EPS.** Globally, most animation production studios are either unlisted or are subsidiaries under media conglomerates. We have identified two peers in Japan whose business models closely resemble Kucingko's, with the key difference being that they own the licensing rights and/or produce some of the most popular anime titles, such as Dragon Ball, One Piece, Spy x Family, and Attack on Titan.

We peg a target PE valuation of 20x for Kucingko, which is at a 20% discount to comparable peers' average, given its smaller market capitalisation. Applying it to FY25 EPS of 2.7sen, we arrive at our fair value of RM0.54.

**Peer Comparison – Trailing 12-month basis (as of 9 July 2024)**

Company	Country	Share price (LC)	Mkt Cap (in USD)	Earnings Growth (%)	P/E (x)	P/B (x)	ROE (%)	Net yield (%)
Toei Animation	Japan	2,490	3,246.8	(10.1)	27.1	3.9	15.3	1.2
IG Port Inc	Japan	1,135	142.5	1,358.0	24.1	3.1	13.8	1.2
<b>Simple Average</b>				<b>n.m</b>	<b>25.6</b>	<b>3.5</b>	<b>14.5</b>	<b>1.2</b>
KucingKo		0.30	31.8	32.0	13.6	2.7	20.2	2.9

Source: Bloomberg, Mercury Securities

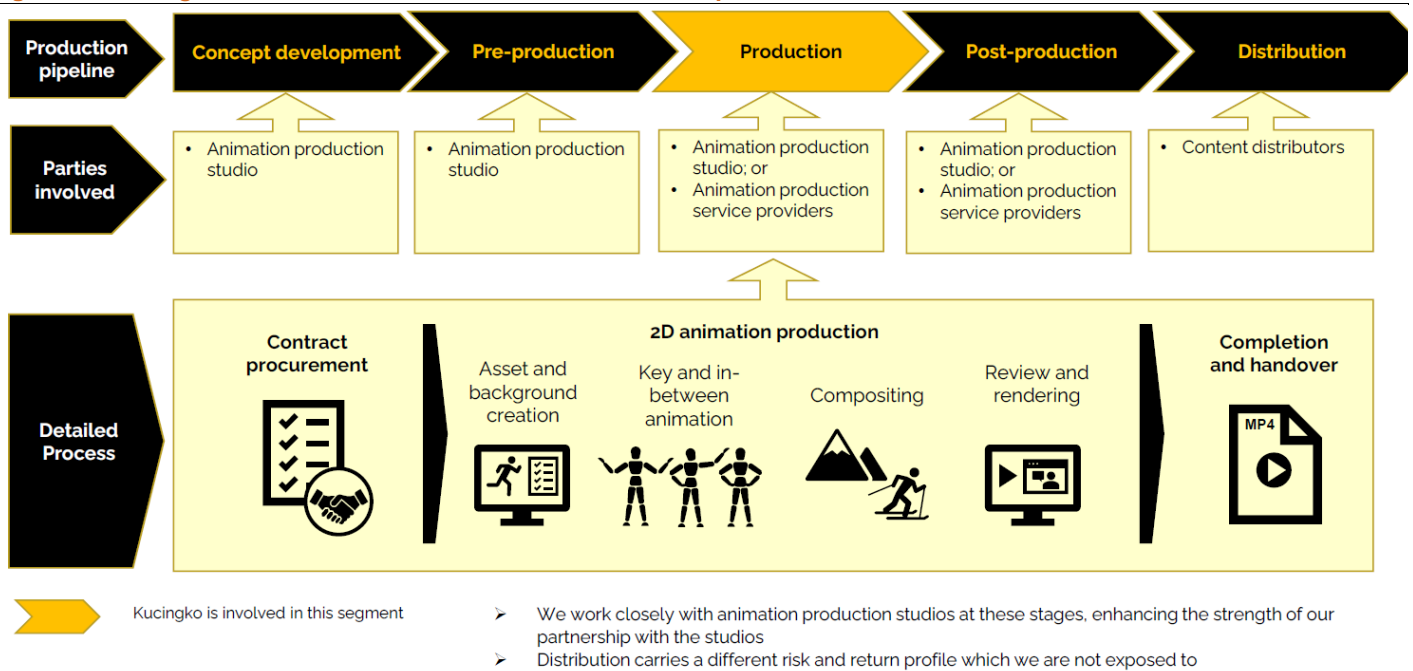


## Company Background

**2D animation production company.** Kucingko specialises in providing 2D animation production services through its subsidiary, Inspidea. The company uses digitally drawn 2D images to create the illusion of movement for animated visual content, particularly for animated series. The production process generally includes three phases: pre-production, production, and post-production.

Kucingko's 2D animation production service focuses mainly on the production phase. It involves creating 2D animations based on the pre-production package provided by customers. The 2D animated content produced is primarily for television broadcasting and digital online streaming, catering to a global audience. From 2020 to May 2024, Kucingko successfully completed 63 animation production projects, with a total contract value of RM75.7m and a combined runtime of approximately 5,015 minutes.

**Figure 5: Kucingko's business in the value chain of animation production**



Source: Company, Mercury Securities

**Overseas customers.** Kucingko's key clients are located overseas, particularly in countries such as the USA, Canada and France, where prominent animation production studios are located. Based on titles worked on by Inspidea, we believe Kucingko's primary customers are production studios affiliated with major names in the entertainment industry, such as Dreamworks, Cartoon Network, Netflix, etc.

**Notable animation titles.** A quick search on IMDB.com (short for Internet Movie Database) lists some of the popular titles produced by Inspidea previously. See Figure 6 below.

**Figure 6: Top 20 most popular animation titles produced by Inspidea**



Source: IMDB

**Figure 7: Key Management Team**

Name and Designation	Age	Profile
<b>See Chin Joo</b> Executive Director Co-founder	53	<ul style="list-style-type: none"> <li>Bachelor of Commerce, Finance &amp; Accounting from University of Melbourne 1994.</li> <li>Co-founded Inspidea with Andrew Ooi in 2002.</li> <li>Oversees the financial and administration side of Kucingko.</li> <li>Prior to Inspidea, mainly worked as a financial analyst in various stockbroking firms.</li> </ul>
<b>Andrew Ooi Kok Hong</b> Executive Director Co-founder	53	<ul style="list-style-type: none"> <li>Master of Science (Urban Planning) from Universiti Sains Malaysia 1996.</li> <li>Co-founded Inspidea with See Chin Joo in 2002.</li> <li>Oversees the creative production and operations of Kucingko.</li> </ul>
<b>Chris Leong Mei Cian</b> Head of Planning	35	<ul style="list-style-type: none"> <li>Bachelor of Communication (Honours) Broadcasting, Universiti Tunku Abdul Rahman 2013.</li> <li>Main responsibilities include production scheduling, resource planning, production management, and talent acquisition.</li> <li>11 years of experience in 2D animation production. Joined Inspidea in 2014.</li> </ul>
<b>Mohd Faizal bin Mohd Wazir</b> Head of Animation	40	<ul style="list-style-type: none"> <li>Bachelor of Multimedia Communication (Honours), Open University Malaysia 2013</li> <li>Oversees animation direction and provides creative supervision, quality management as well as training and coaching talent in the Animation Department.</li> <li>15 years of experience in 2D animation production. Joined Inspidea in 2009.</li> </ul>

Source: Company

**Leap of faith.** In 2022, See Chin Joo and Andrew Ooi co-founded Inspidea, both of whom took a leap of faith into the animation production industry despite coming from other backgrounds. Since then, the group has grown from just a four-person team into one of the largest creative studios in Malaysia, employing more than 260 artists and designers. Mr. Andrew Ooi oversees the creative production, with assistance from Chris Leong (Head of Planning) and Mohd Faizal (Head of Animation).

Figure 8: Group Structure Post Listing



Source: Company, Mercury Securities

## Future Plans & Business Strategies

**New production branch offices in Sabah and Sarawak.** One of Kucingko's expansion plans is to set up branch offices in Sabah and Sarawak. The group plans to establish one office in Kota Kinabalu, Sabah (1,800 sq ft) and another in Kuching, Sarawak (3,200 sq ft). These offices will accommodate up to 40-50 employees and aim to diversify its operations geographically. Management is also in discussions with universities and state government agencies in both states for potential talent collaboration, including internships. This collaboration would enable Kucingko to access a larger talent pool for its 2D animation production operations. The branch offices in Sabah and Sarawak are expected to commence operation by 2H24. The cost of setting them up is estimated at RM11.9m.

**Expanding existing operations in Selangor.** As of May 2024, Kucingko's current production office in Selangor can accommodate up to 420 employees, including administrative staff and 2D animation production personnel. The company plans to enhance its technical resources by hiring an additional 30 animation personnel, refurbishing the premises, and replacing its IT hardware by 1Q25. The estimated cost for the technical resource expansion and office upgrade is RM5.9m.

**New sales office in Los Angeles, USA.** Kucingko's business strategy includes establishing a sales office in Los Angeles, California, USA, by 2H24. Having a physical presence in the USA will enhance its customer service coverage, increase business development activities, provide access to industry trends and insights, and expand the channels through which potential customers can reach the company. This presence will allow face-to-face interactions and localised support for potential customers in North America. Kucingko plans to hire 1 sales and marketing personnel and 1 business development personnel with animation experience. The sales office in LA is expected to commence operations by 2H24. The estimated cost of setting up the office is RM4.38m.



## Key Risks

**Dependent on certain major customers.** Kucingko depends on several key client groups that contributed 70-85% of its sales over the past 4 years. The loss of any one or a few of these major customers, if they are not replaced promptly, either at comparable or higher contract values, could adversely affect its business operations and financial performance.

**Dependent on the supply of skilled animators.** The production of 2D animation projects depends on skilled in-house animators and freelancers Kucingko hires based on their experience, technical proficiency, creativity, attention to detail, and ability to work in teams. While Kucingko's currently employs 240 staff and engages 20 freelancers, there is no guarantee of ongoing access to this talent pool. Any shortages in skilled manpower could affect the quality and timely delivery of its projects, impacting Kucingko's reputation and financial performance.

**Competition from free content on social media platforms.** As a 2D animation production service provider, Kucingko's business may be affected by the performance of its customers' business in the entertainment industry which distributes content through conventional media such as television, pay-per-view and subscription-based streaming platforms (Netflix, Amazon, Apple, Disney+, etc.). Its customers' business may lose viewership arising from the increasing popularity of free self-made short live-action content over various social media platforms such as YouTube, TikTok, Instagram, Twitter and Facebook. If these competing contents grow in popularity at the expense of 2D animated content broadcasted over conventional media, it may adversely affect its customers' business and, subsequently, the demand for Kucingko's services.

**Forex risk.** Kucingko's revenue is mainly denominated in foreign currencies (USD and Euro), exposing the company to currency exchange risk. In respect of this, the company does not have a formal hedging policy, though it has forex forward hedging facilities which may be utilised in the future.

## IPO Details

	Offer for Sale (m)	Public Issue (m)	Total (m)	(%)
<b><u>Retail Offering</u></b>				
Malaysian Public (Bumiputera)	-	12.5	12.5	2.5
Malaysian Public (Non-Bumiputera)	-	12.5	12.5	2.5
Eligible Parties	-	10.0	10.0	2.0
<b><u>Institutional Offering</u></b>				
Selected investors	100.0	65.0	165.0	33.0
<b><u>Total</u></b>	100.0	100.0	200.0	40.0

Source: Company



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