

COMPANY RESULTS

SEA (SE US)

2Q24: Strong Quarter, Improving Outlook And Better Profit Profile

SEA's 2Q24 results are in line with our expectations as all business segments saw better sequential earnings. This was on the back of: a) better profitability from non-Asian markets and higher take-rates for the e-commerce segment, b) strong growth momentum from the DFS segment, and c) increased bookings from a highly engaged user base for the group's Free Fire game. Given the group's improving outlook, we maintain BUY with a higher target price of US\$88.21.

2Q24 RESULTS

Year to 31 Dec (US\$m)	2023	1Q24	2Q24	qoq % chg	yoy % chg	1H24	yoy % chg
Revenue	3,096	3,734	3,807	1.9	23.0	7,541	22.9
Gross profit	1,451	1,554	1,585	2.0	9.2	3,139	9.5
Adj. EBITDA	510	401	448	11.8	(12.1)	850	(16.5)
Digital Entertainment	239	292	303	3.6	26.5	595	26.7
E-Commerce	150	(22)	(9)	57.7	n.m	(31)	n.m
Digital Financial Service	137	149	165	10.8	20.2	313	32.8
Net profit	331.0	(23.0)	79.9	n.m	n.m	56.9	n.m
Core net profit	321.6	(23.7)	81.9	n.m	n.m	58.2	n.m
				(+/- bps)	(+/- bps)		(+/- bps)
Gross margin (%)	46.9	41.6	41.6	0.0	(5.3)	41.6	(5.1)
Adj EBITDA margin (%)	16.5	10.7	11.8	1.1	(4.7)	11.3	(5.3)

Source: SEA LTD, UOB Kay Hian

RESULTS

- In line with our estimates.** For 1H24, SEA Limited (SEA) reported a higher revenue of S\$7,541m but lower core net profit of S\$58.2m (1HFY23: S\$410m). The strong top-line growth was driven by the Digital Financial Service (DFS) and e-commerce segments, forming 57% of our full-year forecasts and above our expectations. 1H24 net profit was largely lower from the yoy increase in sales and marketing (S&M) expenses.
- Sequentially stronger earnings.** All segments demonstrated robust yoy growth and an enhanced profit profile in 2Q24. This was on the back of: a) better profitability from non-Asian markets and higher take-rates for the e-commerce segment, b) strong growth momentum from the DFS segment, and c) increased bookings from a highly engaged user base for the group's Free Fire game. On a sequential basis, 2Q24 was a robust quarter whereby revenue, EBITDA and core net profit all grew qoq. 2Q24 S&M expense remained largely stable (+0.7% qoq).

KEY FINANCIALS

Year to 31 Dec (US\$m)	2021	2022	2023	2024F	2025F
Net turnover	9,955	12,450	13,064	15,604	16,842
EBITDA	(1,583)	(1,488)	225	452	625
Operating profit	(1,583)	(1,488)	225	452	625
Net profit (rep./act.)	(2,047)	(1,651)	169	369	586
Net profit (adj.)	(2,047)	(1,651)	169	369	586
EPS (US\$ cent)	(383.8)	(295.9)	30.4	59.7	91.2
PE (x)	n.m.	n.m.	220.4	112.1	73.4
P/B (x)	4.8	6.5	5.7	4.7	3.9
EV/EBITDA (x)	n.m.	n.m.	158.5	78.8	57.0
Dividend yield (n.a.)	n.a.	n.a.	n.a.	n.a.	n.a.
Net margin (%)	(20.6)	(13.3)	1.3	2.4	3.5
Net debt/(cash) to equity (%)	(98.2)	(73.2)	(18.4)	(31.8)	(46.4)
Interest cover (x)	(15.7)	n.a.	n.a.	n.a.	n.a.
ROE (%)	n.a.	n.a.	2.7	4.8	5.9
Consensus net profit	-	-	-	1,328	1,944
UOBKH/Consensus (x)	-	-	-	0.28	0.30

Source: SEA LTD, Bloomberg, UOB Kay Hian

n.m. : not meaningful; negative P/E, EV/EBITDA reflected as "n.m."

BUY

(Maintained)

Share Price	US\$74.85
Target Price	US\$88.21
Upside	+17.8%
(Previous TP)	US\$78.39

COMPANY DESCRIPTION

Sea has developed an integrated platform consisting of digital entertainment, e-commerce and digital financial services, each localised to meet the unique characteristics of its markets.

STOCK DATA

GICS sector	Communication Services
Bloomberg ticker:	SE US
Shares issued (m):	521.2
Market cap (US\$m):	42,990.7
Market cap (US\$m):	42,990.7
3-mth avg daily t'over (US\$m):	330.3

Price Performance (%)

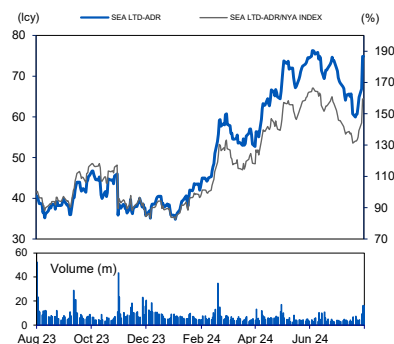
52-week high/low US\$88.07/US\$40.92

1mth	3mth	6mth	1yr	YTD
(9.0)	(35.4)	(13.5)	(36.8)	9.4

Major Shareholders

Forrest Li	25.2
Tencent	18.6
FY24 NAV/Share (US\$)	12.91
FY24 Net Cash/Share (US\$)	9.69

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- E-commerce: Increased profitability.** Management upgraded its guidance for the e-commerce segment by narrowing down Shopee's adjusted EBITDA breakeven guidance to 3Q24 (2H24 previously). The group also increased Shopee's full-year 2024 gross merchandise value (GMV) growth guidance to mid-20% (high-teens % previously). Given higher take rates in 2Q24, quarterly revenue and profit were higher qoq. Management also noted that there is opportunity to further increase take rates in the upcoming quarters amidst rational regional competition, which would lead to better profitability moving forward in our view. S&M expense to segmental revenue (%) improved slightly by 0.7ppt qoq and is expected to grow in the next two quarters, in line with GMV growth. In Brazil, the group managed to achieve positive contribution margin per order of US\$0.09 (2Q23: US\$0.24 loss).
- Digital entertainment: Highly engaged fan base.** User engagement remains robust with Free Fire maintaining 100m daily average users throughout 2Q24, while 2Q24 quarterly active users was at a two-year high. Quarterly paying users (QPU) ratio was stable at 8.1% while QPU improved (+7.4% qoq, +21.8% yoy). 2Q24 segmental EBITDA also grew 3.6% qoq and 26.5% yoy.
- Digital financial services: Growth engine.** Loans principal outstanding was higher at US\$3.5b (+8.0% qoq, +40.0% yoy) at end-2Q24, driven by higher active users (+14% qoq, +58% yoy) acquired from Shopee's large user base and through merchant partnerships. NPL ratio also improved to 1.3% in 2Q24 (1Q24: 1.4%, 2Q23: 1.6%). As a result, 2Q24 segmental EBITDA grew 10.8% qoq and 20.2% yoy.
- Looking forward, we reckon that SEA will continue to post resilient and growing earnings in 2H24 on the back of:**
 - Resilient earnings for digital entertainment.** While user engagement may trend downwards in 3Q24 on seasonality, we expect healthy monthly active users as management localises content, such as participating in esports tournaments, and pursues strategic brand partnerships.
 - Revving multiple growth engines for e-commerce.** Based on our channel checks, competition has been rather stable with TikTok gaining market share at the expense of Lazada while Shopee defended its market leadership. As management continues to invest its strong logistics network in Brazil, enhance user experience via better order fulfilment, and improve unit economics on its livestreaming feature, we are of the view that Shopee will continue to enjoy higher GMV. Furthermore, higher take rates in 2H24 are likely to help support and expand margins moving forward.
 - Healthy outlook for DFS.** We expect DFS to be SEA's next growth driver with its e-wallet, digital banking services and credit-related offerings. Around 70% of Southeast Asia's population remains unbanked, pointing to this region's large growth potential. The group is also expected to provide more customised payment solutions such as instant credit approval in the future, diversifying its credit portfolio across various markets and products.

EARNINGS REVISION/RISK

- We increase our 2024-26 earnings estimates by 2-4%**, on the back of higher e-commerce sales revenue assumptions. We now forecast 2024-26 net profit at US\$369m (US\$361m previously), US\$586m (US\$561m previously) and US\$666m (US\$649m previously) respectively

VALUATION/RECOMMENDATION

- Maintain BUY with a higher target price of US\$88.21 (US\$78.39 previously)**, due to a higher valuation for the e-commerce segment. We maintain an optimistic outlook for 2H24 on the back of stronger profit growth from all the segments.
- Our valuation is based on the SOTP valuation method where we peg the digital entertainment segment to 9.0x 2024F PE, 2.5x 2024F PS for the e-commerce segment and 20x 2024F PE for the DFS segment.

SHARE PRICE CATALYST

- New release of self-developed games.
- Higher-than-expected market share and margin in the operating countries.

SOTP VALUATION SUMMARY (REVISED)

	2024F net profit/sales (US\$m)	Valuation Method	Valuation (x)	Fair Value (US\$)
Digital Entertainment	1,037 (net profit)	PE	9.0	16.77
E-Commerce	10,690 (sales)	PS	2.5	48.00
Digital Financial Services	653 (net profit)	PE	20	23.44
Total				88.21

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (US\$m)	2022	2023	2024F	2025F
Net turnover	12,449.7	13,063.6	15,604.4	16,842.2
EBITDA	(1,487.5)	224.8	452.0	625.3
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	(1,487.5)	224.8	452.0	625.3
Associate contributions	11.2	(7.0)	0.0	0.0
Net interest income/(expense)	70.1	290.2	301.1	365.5
Pre-tax profit	(1,489.4)	425.4	627.5	865.1
Tax	(168.4)	(262.7)	(267.4)	(289.2)
Minorities	6.4	6.4	8.8	9.5
Net profit	(1,651.4)	169.0	368.9	585.5
Net profit (adj.)	(1,651.4)	169.0	368.9	585.5

BALANCE SHEET

Year to 31 Dec (US\$m)	2022	2023	2024F	2025F
Fixed assets	1,387.9	1,207.7	1,211.7	1,217.7
Other LT assets	2,909.2	5,901.6	7,387.0	7,527.7
Cash/ST investment	7,610.4	4,311.0	6,917.7	9,312.4
Other current assets	5,095.4	7,552.5	7,787.5	8,190.4
Total assets	17,002.8	18,972.8	23,303.9	26,248.1
ST debt	88.4	146.7	0.0	0.0
Other current liabilities	6,847.3	8,022.3	8,884.4	9,181.7
LT debt	3,338.8	2,949.8	4,148.0	4,148.0
Other LT liabilities	917.5	947.6	947.6	947.6
Shareholders' equity	5,715.7	6,593.8	8,723.3	11,139.3
Minority interest	95.1	103.8	94.9	85.4
Total liabilities & equity	17,002.8	18,972.8	23,303.9	26,248.1

CASH FLOW

Year to 31 Dec (US\$m)	2022	2023	2024F	2025F
Operating	(1,055.7)	934.7	2,222.0	1,738.2
Pre-tax profit	(1,500.5)	432.4	627.5	865.1
Tax	(168.4)	(262.7)	(267.4)	(289.2)
Deprec. & amort.	428.3	0.0	350.9	355.2
Associates	11.2	(7.0)	0.0	0.0
Working capital changes	(1,369.6)	597.0	(245.6)	4.1
Non-cash items	854.9	175.0	1,756.6	802.9
Other operating cashflows	688.5	n.a.	n.a.	n.a.
Investing	(2,428.8)	(4,692.4)	(363.6)	(371.0)
Capex (growth)	(924.2)	0.0	(338.2)	(339.3)
Investments	(3,797.3)	(4,692.4)	0.0	0.0
Proceeds from sale of assets	2,401.0	0.0	0.0	0.0
Others	(108.4)	0.0	(25.4)	(31.8)
Financing	400.3	458.3	815.6	1,027.5
Dividend payments	0.0	0.0	0.0	1.0
Issue of shares	50.2	0.0	561.8	631.6
Proceeds from borrowings	(11.6)	177.6	(266.0)	0.0
Loan repayment	361.6	0.0	0.0	1.0
Others/interest paid	n.a.	280.7	519.9	394.0
Net cash inflow (outflow)	(3,084.2)	(3,299.4)	2,674.0	2,394.7
Beginning cash & cash equivalent	10,838.1	7,610.4	4,243.7	6,917.7
Changes due to forex impact	(143.5)	n.a.	n.a.	n.a.
Ending cash & cash equivalent	7,610.4	4,311.0	6,917.7	9,312.4

KEY METRICS

Year to 31 Dec (%)	2022	2023	2024F	2025F
Profitability				
EBITDA margin	(11.9)	1.7	2.9	3.7
Pre-tax margin	(12.0)	3.3	4.0	5.1
Net margin	(13.3)	1.3	2.4	3.5
ROA	n.a.	0.9	1.7	2.4
ROE	n.a.	2.7	4.8	5.9
Growth				
Turnover	25.1	4.9	19.4	7.9
EBITDA	n.a.	n.a.	101.1	38.3
Pre-tax profit	n.a.	n.a.	47.5	37.9
Net profit	n.a.	n.a.	118.2	58.7
Net profit (adj.)	n.a.	n.a.	118.2	58.7
EPS	n.a.	n.a.	96.7	52.7
Leverage				
Debt to total capital	37.1	31.6	32.0	27.0
Debt to equity	60.0	47.0	47.6	37.2
Net debt/(cash) to equity	(73.2)	(18.4)	(31.8)	(46.4)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.

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