

COMPANY RESULTS

SEA (SE US)

1Q24: Strong Earnings From All Segments

SEA's 1Q24 earnings beat market estimate with all segments showing strong earnings and enhanced profit profiles. Management provided a positive outlook for 2024 during the recent analyst briefing, especially for the e-commerce and digital entertainment segments. We expect the same and expect earnings to turn positive in 2H24. Maintain BUY with a target price of US\$78.39 with an optimistic outlook for 2024 on the back of stronger growth from all segments.

1Q24 RESULTS

Year to 31 Dec (US\$m)	1Q23	4Q23	1Q24	qoq % chg	yoy % chg	Remarks
Revenue	3,041	3,617	3,734	3.3	22.8	
Gross profit	1,417	1,525	1,554	1.9	9.7	
Adj. EBITDA	3,041	3,617	3,734	3.3	22.8	
Digital Entertainment	230	217	292	34.4	27.0	
E-Commerce	208	(225)	(22)	n.m	n.m	
Digital Financial Service	99	149	149	0.1	50.3	
PATMI	88	(91)	(24)	n.m	n.m	
		(+/- bps)	(+/- bps)		(+/- bps)	
Gross margin (%)	46.6	42.2	41.6	(0.6)	(5.0)	
Adj EBITDA margin (%)	16.7	3.5	3.4	(0.1)	(13.3)	

Source: SEA LTD, UOB Kay Hian

RESULTS

- **Beating estimates with strong performance across all segments.** SEA Limited (SEA) reported a significant narrowing of its loss to US\$24m in 1Q24, a substantial improvement from the US\$91m loss recorded in 4Q24. The results surpassed our estimate, with operating profit accounting for 30% of our full-year forecast. All segments demonstrated robust growth and an enhanced profit profile.
- **Positive 2024 outlook guidance.** Management has provided a positive outlook for 2024, expressing increased confidence and optimism during the recent analyst briefing. This upbeat guidance is driven by strong growth in e-commerce, particularly in gross merchandise value (GMV) and value-added services, as well as a resurgence in the gaming segment. Notably, the company is confident in turning Free Fire into an evergreen franchise, as it continues to be one of the largest mobile games globally by user base, even in its seventh year.

KEY FINANCIALS

Year to 31 Dec (US\$m)	2021	2022	2023	2024F	2025F
Net turnover	9,955	12,450	13,064	13,250	14,331
EBITDA	(1,583)	(1,488)	225	865	1,214
Operating profit	(1,583)	(1,488)	225	865	1,214
Net profit (rep./act.)	(2,047)	(1,651)	169	361	561
Net profit (adj.)	(2,047)	(1,651)	169	361	561
EPS (US\$ cent)	(383.8)	(295.9)	30.4	58.5	87.8
PE (x)	n.m.	n.m.	212.3	110.1	73.4
P/B (x)	4.6	6.3	5.4	4.6	3.8
EV/EBITDA (x)	n.m.	n.m.	138.9	36.1	25.7
Dividend yield (n.a.)	n.a.	n.a.	n.a.	n.a.	n.a.
Net margin (%)	(20.6)	(13.3)	1.3	2.7	3.9
Net debt/(cash) to equity (%)	(98.2)	(73.2)	(18.4)	(62.6)	(71.7)
Interest cover (x)	(15.7)	n.a.	n.a.	n.a.	n.a.
ROE (%)	n.a.	n.a.	2.7	4.7	5.7
Consensus net profit	-	-	-	413	975
UOBKH/Consensus (x)	-	-	-	0.87	0.58

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\$64.46
Target Price	US\$78.39
Upside	+21.6%

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):	36,533.3
Market cap (US\$m):	36,533.3
3-mth avg daily t'over (US\$m):	375.4

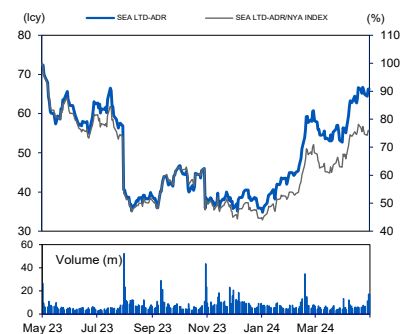
Price Performance (%)

52-week high/low	US\$72.45/US\$34.82
1mth	21.0
3mth	51.0
6mth	79.7
1yr	(24.0)
YTD	59.2

Major Shareholders

	%
-	-
-	-
-	-
FY24 NAV/Share (US\$)	14.00
FY24 Net Cash/Share (US\$)	8.77

PRICE CHART



Source: Bloomberg

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• Key segment performance in 1Q24:

- a) **E-commerce:** Continued to show marked improvement, registering a significantly reduced loss of US\$22m in 1Q24, (4Q23: US\$225m loss). Besides Shopee, SEA's flagship e-commerce platform achieved its highest-ever quarterly order volume, GMV, and revenue. Key factors contributing to this strong performance include:
 - i. **Value-added services:** Logistic services revenue has improved by 8% yoy in 1Q24. SPX Express had also driven down the cost per order by 15% yoy in Asia and 20% yoy in Brazil, improving the sub-segment margin.
 - ii. **Cost efficiency:** Sales and marketing expenses declined by 31% qoq. This reduction is likely attributed to more stable market conditions and industry consolidation, leading to a more efficient allocation of marketing resources.
- b) **Digital entertainment (+34% qoq, +27% yoy):** Led by Free Fire's strong performance across markets with more gamers coming back, reflected by higher monthly active users (+12% qoq, +21% yoy) in 1Q24.
- c) **Digital financial services (+0% qoq, +50% yoy):** Continued to remain resilient, leveraging on its Shopee platform. Having said that, the consumer and SME loans principal outstanding had also increased by 29% yoy.

STOCK IMPACT

- **2024 outlook.** We expect significant improvements in 2024 earnings from all the segments and we expect 2H24 earnings to return to positive. This is mainly on the back of:
 - a) **Higher GMV from the e-commerce segment** as Shopee continues to strengthen its logistics network, ramp up its livestreaming feature and optimise buyer/seller experiences.
 - b) **Double-digit growth in digital entertainment**, with resurgence in gamers especially for Free Fire. We have also observed higher paying user ratio in 1Q24 which we expect would continue to improve in the coming quarters with more active users.
 - c) **Resilient digital financial services** with SeaMoney continuing to leverage on the Shopee platform to cross-sell products while looking outside of the platform and expanding its product offerings to serve untapped markets. On top of that, the consumer and SME loan book is expected to continue to grow.

EARNINGS REVISION/RISK

- Maintain earnings forecast.

VALUATION/RECOMMENDATION

- **Maintain BUY with a target price of S\$78.39**, with an optimistic outlook for 2024 on the back of stronger growth from all the segments. Our valuation is based on the SOTP valuation method where we pegged the digital entertainment segment to 9.0x 2024F PE, 2.5x 2024F PS for the e-commerce segment and 20x 2024F PE for the digital financial services segment

SHARE PRICE CATALYST

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

KEY STATISTICS

Year to 31 Dec (US\$m)	1Q23	4Q23	1Q24	qoq % chg	yoy % chg
Digital Entertainment					
Booking (US\$m)	462	456	512	12.2	10.8
Average quarterly QAU (m)	492	529	594	12.4	20.9
Average quarterly QPU (m)	38	40	49	23.2	30.1
Booking per QPU (US\$)	12.3	11.5	10.5	(8.9)	(14.8)
Revenue per QPU (US\$)	43.9	44.4	43.7	(1.6)	(0.3)

Source: SEA LTD, UOB Kay Hian

SOTP VALUATION SUMMARY

	2024F net profit/ sales (US\$m)	Valuation Method	Valuation (x)	Fair Value (US\$)
Digital Entertainment	1,108 (net profit)	PE	9.0	17.9
E-Commerce	8,366 (sales)	PS	2.5	37.6
Digital Financial Services	638 (net profit)	PE	20	22.9
Total				78.39

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (US\$m)	2022	2023	2024F	2025F
Net turnover	12,450	13,064	13,250	14,331
EBITDA	(1,488)	225	865	1,214
Deprec. & amort.	0	0	0	0
EBIT	(1,488)	225	865	1,214
Associate contributions	11	(7)	0	0
Net interest income/(expense)	70	290	119	13
Pre-tax profit	(1,489)	425	859	1,101
Tax	(168)	(263)	(507)	(550)
Minorities	6	6	9	10
Net profit	(1,651)	169	361	561
Net profit (adj.)	(1,651)	169	361	561

CASH FLOW

Year to 31 Dec (US\$m)	2022	2023	2024F	2025F
Operating	(1,056)	935	4,855	1,765
Pre-tax profit	(1,501)	432	859	1,101
Tax	(168)	(263)	(507)	(550)
Deprec. & amort.	428	0	351	355
Associates	11	(7)	0	0
Working capital changes	(1,370)	597	2,481	172
Non-cash items	855	175	1,672	687
Other operating cashflows	688	n.a.	n.a.	n.a.
Investing	(2,429)	(4,692)	(364)	(371)
Capex (growth)	(924)	0	(338)	(339)
Investments	(3,797)	(4,692)	0	0
Proceeds from sale of assets	2,401	0	0	0
Others	(108)	0	(25)	(32)
Financing	400	458	816	1,028
Dividend payments	0	0	0	1
Issue of shares	50	0	477	516
Proceeds from borrowings	(12)	178	(266)	0
Loan repayment	362	0	0	1
Others/interest paid	n.a.	281	605	510
Net cash inflow (outflow)	(3,084)	(3,299)	5,307	2,421
Beginning cash & cash equivalent	10,838	7,610	4,244	9,551
Changes due to forex impact	(144)	n.a.	n.a.	n.a.
Ending cash & cash equivalent	7,610	4,311	9,551	11,972

BALANCE SHEET

Year to 31 Dec (US\$m)	2022	2023	2024F	2025F
Fixed assets	1,388	1,208	1,212	1,218
Other LT assets	2,909	5,902	5,916	5,940
Cash/ST investment	7,610	4,311	9,551	11,972
Other current assets	5,095	7,553	5,824	6,077
Total assets	17,003	18,973	22,502	25,207
ST debt	88	147	0	0
Other current liabilities	6,847	8,022	8,620	8,849
LT debt	3,339	2,950	4,148	4,148
Other LT liabilities	918	948	948	948
Shareholders' equity	5,716	6,594	8,630	10,906
Minority interest	95	104	94	84
Total liabilities & equity	17,003	18,973	22,502	25,207

KEY METRICS

Year to 31 Dec (%)	2022	2023	2024F	2025F
Profitability				
EBITDA margin	(11.9)	1.7	6.5	8.5
Pre-tax margin	(12.0)	3.3	6.5	7.7
Net margin	(13.3)	1.3	2.7	3.9
ROA	n.a.	0.9	1.7	2.4
ROE	n.a.	2.7	4.7	5.7
Growth				
Turnover	25.1	4.9	1.4	8.2
EBITDA	n.a.	n.a.	285.0	40.3
Pre-tax profit	n.a.	n.a.	101.9	28.2
Net profit	n.a.	n.a.	113.4	55.5
Net profit (adj.)	n.a.	n.a.	113.4	55.5
EPS	n.a.	n.a.	92.8	50.1
Leverage				
Debt to total capital	37.1	31.6	32.2	27.4
Debt to equity	60.0	47.0	48.1	38.0
Net debt/(cash) to equity	(73.2)	(18.4)	(62.6)	(71.7)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.

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