

COMPANY RESULTS

SEA (SE US)

2Q23: Consistent Profitability, Reinvesting for E-commerce Growth

2Q23 earnings surpassed our expectations, primarily driven by the DFS segment, particularly the credit business. Increased quarterly earnings can be attributed to the DE sector, reflecting a rise in active and paying users. E-commerce profitability persisted in 2Q23, while SEA was relooking into more growth opportunities. Maintain BUY with target price of US\$94.34, with the belief that SEA will become the first Southeast Asian e-commerce company to achieve positive earnings in 2023.

2Q23 RESULTS

Year to 31 Dec (US\$m)	2Q23	qoq % chg	yoy % chg	1H23	yoy % chg	Remarks
Revenue	3,096	1.8	5.2	6,136.8	5.0	
Gross profit	1,451	2.4	33.1	2,867.6	26.9	
Adj. EBITDA	510	0.6	n.m	1,017.2	n.m	
Digital Entertainment	239	4.1	n.m	469.5	n.m	
E-Commerce	150	(27.6)	n.m	358.1	n.m	
Digital Financial Service	137	38.4	n.m	235.9	n.m	
Net profit	331	279.2	n.m	418.3	n.m	
Core net profit	322	56.2	n.m	527.6	n.m	
		(+/- bps)	(+/- bps)		(+/- bps)	
Gross margin (%)	46.9	0.3	9.8	46.7	8.0	
Adj EBITDA margin (%)	16.5	(0.2)	33.7	16.6	34.0	

Source: SEA LTD, UOB Kay Hian

RESULTS

- **Beating our and consensus estimates.** SEA Limited (SEA) continued to report qoq and yoy improvement in earnings in 2Q23, with net profit at US\$322m (+56% qoq), bringing 1H23 core net profit to US\$523m (+>100% yoy), contributing 55% of our full-year estimate. This is above our estimates.
- The main positive variance was mainly due to the strong growth of the Digital Financial Service (DFS) segment. The driving force behind the growth can be attributed to its credit business, particularly notable through its Indonesia-based subsidiary, PT Seabank. The expeditious monetisation strategy employed by SEA in its DFS sector has taken us by surprise, considering the relatively brief timeframe. We anticipate a sustained progression in this segment's growth due to its good operating margins, capitalising on the foundation provided by the Shopee platform.

KEY FINANCIALS

Year to 31 Dec (US\$m)	2021	2022	2023F	2024F	2025F
Net turnover	9,955	12,450	13,765	15,742	17,860
EBITDA	(1,583)	(1,133)	1,343	1,791	2,679
Operating profit	(1,583)	(1,133)	1,343	1,791	2,679
Net profit (rep./act.)	(2,045)	(1,496)	959	1,272	2,059
Net profit (adj.)	(2,045)	(1,496)	959	1,272	2,059
EPS (US\$ cent)	(383.4)	(268.1)	167.4	205.6	319.9
PE (x)	n.m.	n.m.	34.0	27.7	17.8
P/B (x)	4.1	5.6	4.4	3.4	2.6
EV/EBITDA (x)	n.m.	n.m.	19.9	15.0	10.0
Dividend yield (n.a.)	n.a.	n.a.	n.a.	n.a.	n.a.
Net margin (%)	(20.5)	(12.0)	7.0	8.1	11.5
Net debt/(cash) to equity (%)	(98.2)	(73.0)	(75.1)	(72.8)	(72.5)
Interest cover (x)	(15.7)	n.a.	n.a.	n.a.	n.a.
ROE (%)	n.a.	n.a.	14.6	14.3	16.6
Consensus net profit	-	-	1,268	1,672	2,292
UOBKH/Consensus (x)	-	-	0.76	0.76	0.90

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\$56.90
Target Price	US\$94.34
Upside	+65.8%

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):	32,248.6
Market cap (US\$m):	32,248.6
3-mth avg daily t'over (US\$m):	330.3

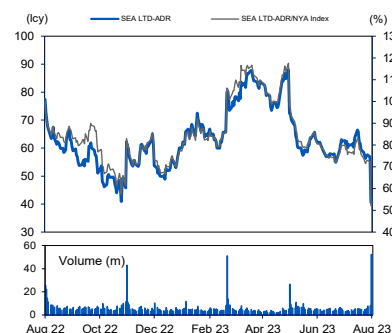
Price Performance (%)

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
FY23 NAV/Share (US\$)	12.91
FY23 Net Cash/Share (US\$)	9.69

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Stronger qoq 2Q23 earnings mainly supported by:**
 - Higher qoq digital entertainment (DE) earnings:** Higher Free Fire bookings which has higher margins and higher active/paying users. Note that booking numbers have also improved for the first time in seven quarters.
 - Strong qoq digital financial service earnings:** Increasing synergies between Shopee and SeaMoney. The main driver in 2Q23 mainly came from its credit business, which we believe is from its Indonesia subsidiary, PT Seabank.
- **E-commerce profitability continues, while relooking into more growth opportunities.** Note that e-commerce revenue continued to increase by 8% qoq, supported by >10% qoq increase in gross merchandise value (GMV) as well as higher transaction-based fees, advertising and value-added services revenue. These trends underscore the ability of Shopee to effectively harness its internal resources. Conversely, operational profit declined by 28% qoq, primarily attributed to escalated expenditures on sales and marketing. These investments are targeted at expanding into new markets and capitalising on emerging opportunities. Notably, its Brazil e-commerce segment saw considerable progress in 2Q23, as evidenced by a positive contribution margin of US\$0.34 per order.
- **Shifting back to reinvestment.** Having achieved a phase of consistent profitability, management has indicated a transition toward reinvestment, directing resources toward its e-commerce segment and other strategic investments. We opine that management's attention may persistently centre on nurturing the growth potential within its e-commerce division. An illustrative instance is Shopee's recent introduction of an affiliate programme, employing social influencers to enhance user engagement, alongside initiatives like live-streaming. We anticipate that these endeavours will sustainably contribute to an increased GMV for Shopee.
- **Looking forward, we reckon that SEA will continue to post resilient earnings in 2H23 on the back of:**
 - Resilient earnings for digital entertainment.** Management guided that monthly active users will continue to grow, and it will see long-term stabilisation from its self-developed game, Free Fire.
 - Strong growth from DFS.** As highlighted, we reckon that the DFS would continue to be the next growth mover for SEA with the strong growth potential of its e-wallet, digital banking services and credit businesses. The robust earnings expansion observed in the credit business in 2Q23, alongside the evident synergy between Shopee and SeaMoney, reinforces this perspective. We hold the view that this segment is poised to further unlock its potential, particularly with the forthcoming digital banking licenses under Shopee's ownership across diverse countries, including Singapore and Malaysia.
 - Continued expansion of e-commerce footprint.** We reckon that Shopee revenue would continue to grow along with higher GMV as well as higher transaction-based fees and value-added service revenue. However, we expect a lower margin from this segment due to the company seeking growth potential in current and new markets.

EARNINGS REVISION/RISK

- **Maintain our earnings forecasts** at US\$935m, US\$1.27b and US\$2.06b for 2023-25 respectively, with SEA possibly seeing its first-ever annual net profit in 2023.

VALUATION/RECOMMENDATION

- **Maintain BUY with target price of US\$94.34.** We maintain our BUY recommendation and recommend investors to accumulate on weakness as we believe that SEA will be the first Southeast Asian e-commerce company to record positive earnings for 2023.

SHARE PRICE CATALYST

- New release of self-developed game.
- Stronger-than-expected growth from e-commerce and digital financial service segments.

KEY STATISTICS

Year to 31 Dec (US\$m)	2Q23	qoq % chg	yoy % chg
Digital Entertainment			
Booking (US\$m)	443	(4.2)	(38.2)
Average quarterly QAU (m)	545	10.8	(12.1)
Average quarterly QPU (m)	43	14.6	(23.2)
Booking per QPU (US\$)	10.3	(16.4)	(19.6)
Revenue per QPU (US\$)	51.5	17.3	(26.9)

Source: SEA LTD, UOB Kay Hian

SOTP VALUATION SUMMARY (REVISED)

	2023F net profit/ sales (US\$m)	Valuation Method	Valuation (x)	Fair Value (US\$)
Digital Entertainment	1,833 (net profit)	PE	9.0	30.07
E-Commerce	9,821 (sales)	PS	2.5	37.44
Digital Financial Services	579 (net profit)	PE	25.0	26.82
Total				94.34

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
Net turnover	12,450	13,765	15,742	17,860
EBITDA	(1,133)	1,343	1,791	2,679
Deprec. & amort.	0	0	0	0
EBIT	(1,133)	1,343	1,791	2,679
Associate contributions	11	0	0	0
Net interest income/(expense)	70	0	28	79
Pre-tax profit	(1,334)	1,136	1,612	2,550
Tax	(168)	(184)	(347)	(500)
Minorities	6	7	7	8
Net profit	(1,496)	959	1,272	2,059
Net profit (adj.)	(1,496)	959	1,272	2,059

CASH FLOW

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
Operating	(2,124)	1,889	2,481	2,209
Pre-tax profit	(1,501)	1,136	1,612	2,550
Tax	(168)	(184)	(347)	(500)
Deprec. & amort.	0	405	417	423
Associates	11	0	0	0
Working capital changes	(616)	(263)	(963)	(1,079)
Non-cash items	149	794	1,762	814
Other operating cashflows	n.a.	n.a.	n.a.	n.a.
Investing	(201)	(449)	(438)	(449)
Capex (growth)	0	(416)	(397)	(398)
Investments	(201)	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	0	(33)	(41)	(51)
Financing	(329)	644	4	1,028
Dividend payments	0	0	0	1
Issue of shares	0	619	567	643
Proceeds from borrowings	(12)	(88)	0	0
Loan repayment	0	0	0	1
Others/interest paid	(317)	113	(563)	383
Net cash inflow (outflow)	(2,654)	2,083	2,048	2,788
Beginning cash & cash equivalent	10,838	7,597	9,681	11,728
Changes due to forex impact	n.a.	n.a.	n.a.	n.a.
Ending cash & cash equivalent	7,597	9,698	11,746	14,534

BALANCE SHEET

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
Fixed assets	1,388	1,418	1,422	1,428
Other LT assets	2,909	2,940	2,982	3,031
Cash/ST investment	7,597	9,698	11,746	14,534
Other current assets	5,109	3,818	4,259	4,716
Total assets	17,003	17,873	20,408	23,709
ST debt	88	0	0	0
Other current liabilities	6,847	5,328	4,832	4,240
LT debt	3,339	4,148	4,148	4,148
Other LT liabilities	918	918	918	918
Shareholders' equity	5,716	7,392	10,430	14,330
Minority interest	95	88	81	73
Total liabilities & equity	17,003	17,873	20,408	23,709

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	(9.1)	9.8	11.4	15.0
Pre-tax margin	(10.7)	8.3	10.2	14.3
Net margin	(12.0)	7.0	8.1	11.5
ROA	n.a.	5.5	6.6	9.3
ROE	n.a.	14.6	14.3	16.6
Growth				
Turnover	25.1	10.6	14.4	13.5
EBITDA	n.a.	n.a.	33.3	49.5
Pre-tax profit	n.a.	n.a.	41.9	58.2
Net profit	n.a.	n.a.	32.7	61.8
Net profit (adj.)	n.a.	n.a.	32.7	61.8
EPS	n.a.	n.a.	22.8	55.6
Leverage				
Debt to total capital	37.1	35.7	28.3	22.4
Debt to equity	60.0	56.1	39.8	28.9
Net debt/(cash) to equity	(73.0)	(75.1)	(72.8)	(72.5)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.

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