

## COMPANY RESULTS

### SEA (SE US)

4Q22: Results Beat With Strong Focus On Cost Efficiency; Upgrade To BUY

SEA's 4Q22 core earnings of US\$271m beat our and the street's estimates that are still expecting a loss, due to strong cost efficiency in significantly reducing sales and marketing expenses. Although there could be near-term fluctuations in the performance of SEA, management remains confident on its long-term growth potential. We have raised our 2023 earnings to US\$935m, from a US\$1.6b loss after this earnings surprise. Upgrade to BUY with a higher target price of US\$94.34.

#### 4Q22 RESULTS

Year to 31 Dec (US\$m)	4Q22	qoq % chg	yoy % chg	2022	yoy % chg	Remarks
Revenue	3,452	9.4	7.1	12,450	25.1	
Gross profit	1,697	38.2	29.5	5,185	33.1	
Adj. EBITDA	496	n.m	n.m	-878	(47.9)	
Digital Entertainment	258	n.m	n.m	1,313	(52.9)	
E-Commerce	196	n.m	n.m	-1,691	33.8	
Digital Financial Service	76	n.m	n.m	-229	62.9	
Net profit	423	n.m	n.m	-1,651	19.2	Above expectation.
		(+/- bps)	(+/- bps)		(+/- bps)	
Gross margin (%)	49.2	10.3	8.5	41.65	2.5	
Adj EBITDA margin (%)	14.4	25.7	29.6	-7.05	-1.1	

Source: SEA, UOB Kay Hian

#### RESULTS

- Strong turnaround in 4Q22.** SEA's 4Q22 results shocked the market with its earlier-than-expected net profit of US\$422.8m. If we were to exclude the one-off items of impairment of goodwill of US\$177.7m, net gain on debt extinguishment of US\$199.7m, and US\$130m in reversal of previous accruals, core net profit is still high at US\$270.8m for 4Q22. This is SEA's first record quarter net profit, way above our and consensus expectations. We attributed the strong earnings in 4Q22 to its cost efficiency where SEA had cut its sales and marketing expenses by 42% qoq and 61% yoy in 4Q22 alone.
- Management guided that there may still be near-term fluctuations in its performance, given the current macro uncertainty and would continue to adjust its pace and fine-tune its operations accordingly. Having said that, management remains confident on its long-term growth potential and would fully focus on capturing opportunities.

#### KEY FINANCIALS

Year to 31 Dec (US\$m)	2021	2022	2023F	2024F	2025F
Net turnover	9,955	12,450	15,245	15,742	17,860
EBITDA	(1,583)	(1,133)	1,317	1,791	2,679
Operating profit	(1,583)	(1,133)	1,317	1,791	2,679
Net profit (rep./act.)	(2,045)	(1,803)	935	1,273	2,059
Net profit (adj.)	(2,045)	(1,803)	935	1,273	2,059
EPS (US\$ cent)	(383.4)	(323.1)	162.9	205.3	319.4
PE (x)	n.m.	n.m.	40.3	32.0	20.6
P/B (x)	4.7	6.4	5.1	3.9	2.9
EV/EBITDA (x)	n.m.	n.m.	23.8	17.5	11.7
Dividend yield (n.a.)	n.a.	n.a.	n.a.	n.a.	n.a.
Net margin (%)	(20.5)	(14.5)	6.1	8.1	11.5
Net debt/(cash) to equity (%)	(98.2)	(73.0)	(76.3)	(73.0)	(72.6)
Interest cover (x)	(15.7)	n.a.	n.a.	n.a.	n.a.
ROE (%)	n.a.	n.a.	14.2	14.2	16.6
Consensus net profit	-	-	(2,006)	(1,015)	179
UOBKH/Consensus (x)	-	-	n.m.	n.m.	11.51

Source: SEA, Bloomberg, UOB Kay Hian

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

## BUY

### (Upgraded)

Share Price	US\$65.71
Target Price	US\$94.34
Upside	+43.6%
(Previous TP)	US\$58.77)

#### 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

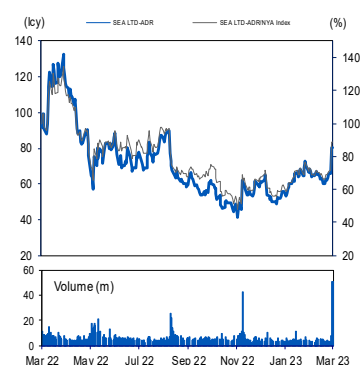
GICS sector	Communication Services
Bloomberg ticker:	SE US
Shares issued (m):	516.2
Market cap (US\$m):	36,911.8
Market cap (US\$m):	36,911.8
3-mth avg daily t'over (US\$m):	273.8
Price Performance (%)	

52-week high/low US\$132.72/US\$40.92

1mth	3mth	6mth	1yr	YTD
(4.1)	13.1	11.7	(27.0)	26.3

Major Shareholders	%
Forrest Li	25.2
Tencent	18.6
-	-
FY23 NAV/Share (US\$)	12.95
FY23 Net Cash/Share (US\$)	9.88

#### PRICE CHART



Source: Bloomberg

#### ANALYST(S)

**John Cheong**  
+65 6590 6623  
johncheong@uobkayhian.com

**Jacquelyn Yow Hui Li**  
+603 2147 1995  
jacquelyn@uobkayhian.com

**Heidi Mo**  
+65 6590 6630  
heidimo@uobkayhian.com

### STOCK IMPACT

- **4Q22 earnings were higher qoq and yoy**, despite revenue only growing by 9% qoq and 7% yoy. This was mainly attributed to:

a) **Lower sales and marketing expenses**, especially for its e-commerce segment. The sales and marketing expenses had dropped by 42% qoq and 61% yoy in 4Q22, which is in line with the group's effort to optimise its operating costs and achieve higher cost efficiencies. The strong cut in sales and marketing expenses would be from the digital financial services (DFS) segment followed by the e-commerce segment.

b) **First time ever positive EBITDA for its e-commerce and DFS segments**. This is attributable to:

(i) **E-commerce**: Despite gross merchandise value (GMV) falling qoq and yoy in 4Q22, adjusted EBITDA turned positive for the first time. This was mainly due to: a) lower sales and marketing expenses, b) higher transaction-based fees & advertising revenue, and c) value-added service revenue (especially the logistics side).

(ii) **DFS**: There was strong revenue growth of 23% qoq and 37% yoy in 4Q22 which we reckon was mainly due to: a) the lower transaction cost in mobile wallet, leveraging on Shopee, its e-commerce arm, for the fast growth of user bases; as well as b) the highly relevant insights for more effective underwriting and better offering to its customers.

- **Players are still active in the game**. While digital entertainment's operating profit was weaker in 4Q22 mainly due to fewer active players and lower bookings, we reckon that the active players are still in the game. This was mainly due to the increment in the revenue per paying user in 4Q22 which had increased 9.8% qoq.

- **2022 earnings improved by 19% yoy**, thanks to the earlier-than-expected net profit recorded in 4Q22. The higher yoy earnings were mainly due to the strong contribution from its e-commerce and DFS segments.

- **Better financing**. The group had repurchased US\$817.2m aggregate principal amount of the 0.25% convertible senior notes due 2026 (the 2026 convertible bond), for a cash consideration of US\$611.3m. This resulted in a US\$199.7m gain on debt extinguishment, inclusive of an accelerated deferred issuance cost of US\$6.2m, and US\$7.7m savings in future interest payments. As of the date hereof, approximately US\$2.1b aggregate principal amount of the 2026 convertible bond remains outstanding.

- **Potential first yearly net profit for 2023**. With the strong set of results reported in 4Q22 via the group's effort to focus on efficiency and profitability, we reckon that SEA may report an earlier-than-expected annual net profit for its first time in 2023. The strong net profit growth in 2023 would be mainly driven by: a) strong cost efficiency and higher transaction fee for its e-commerce segment, b) higher contribution from its value-added service in logistics, and c) higher contribution from its DFS segment. Based on our channel checks, we understand that SEA has been working on streamlining and expanding its own logistic services.

### EARNINGS REVISION/RISK

- **Adjusted earnings**. We have adjusted our 2023 earnings to report the first annual net profit from our previous estimate of a loss, where we have forecast lower sales and marketing expenses, higher transaction fees for the e-commerce segment, and better contribution from the DFS segment.

### VALUATION/RECOMMENDATION

- **Upgrade to BUY with higher target price of US\$94.34**, on the back of potential first yearly net profit in 2023 with strong contribution from the e-commerce and DFS segments.

### SHARE PRICE CATALYST

- New release of self-developed game.
- Earlier-than-expected annual net profit in 2023.

### KEY STATISTICS

Year to 31 Dec (US\$m)	4Q22	qoq % chg	yoy % chg	2022	yoy % chg
<b>Digital Entertainment</b>					
Booking (US\$m)	544	(18.22)	(50.58)	2,752	(40.1)
Average quarterly QAU (m)	486	(14.55)	(25.76)	572	(17.0)
Average quarterly QPU (m)	44	(15.49)	(43.40)	53	(37.8)
Booking per QPU (US\$)	12.4	(3.22)	(12.69)	12.93	(3.7)
Revenue per QPU (US\$)	76.3	9.82	(23.20)	18.21	44.3
<b>E-Commerce</b>					
Orders (m)	1,700	(15.00)	(15.00)	7,600	22.58
GMV (US\$m)	18,000	(5.76)	(1.10)	73,500	17.41
GMV per order (US\$)	10.6	10.87	16.35	9.7	(4.22)

Source: SEA, 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	29.59
E-Commerce	9,821 (sales)	PS	2.2	38.76
Digital Financial Services	579 (net profit)	PE	25.0	25.95
<b>Total</b>				<b>94.00</b>

Source: UOB Kay Hian

### SOTP VALUATION SUMMARY (PREVIOUS)

	2023F net profit/ sales (US\$m)	Valuation Method	Valuation (x)	Fair Value (US\$)
Digital Entertainment	1,500 (net profit)	PE	8.0	20.11
E-Commerce	9,428 (sales)	PS	1.8	30.45
Digital Financial Services	1,308 (sales)	PS	3.5	8.21
<b>Total</b>				<b>58.77</b>

Source: UOB Kay Hian

**PROFIT & LOSS**

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
Net turnover	12,450	15,245	15,742	17,860
EBITDA	(1,133)	1,317	1,791	2,679
Deprec. & amort.	0	0	0	0
EBIT	(1,133)	1,317	1,791	2,679
Associate contributions	11	0	0	0
Net interest income/(expense)	70	2	29	79
Pre-tax profit	(1,334)	1,112	1,613	2,551
Tax	(168)	(184)	(347)	(500)
Minorities	6	7	7	8
Net profit	(1,803)	935	1,273	2,059
Net profit (adj.)	(1,803)	935	1,273	2,059

**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	2,956	2,982	3,031
Cash/ST investment	7,597	9,820	11,789	14,578
Other current assets	5,109	4,117	4,259	4,716
<b>Total assets</b>	<b>17,003</b>	<b>18,311</b>	<b>20,451</b>	<b>23,752</b>
ST debt	88	0	0	0
Other current liabilities	6,847	5,723	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	7,434	10,473	14,374
Minority interest	95	88	81	73
<b>Total liabilities &amp; equity</b>	<b>17,003</b>	<b>18,311</b>	<b>20,451</b>	<b>23,752</b>

**CASH FLOW**

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
Operating	(2,124)	2,011	2,403	2,210
Pre-tax profit	(1,501)	1,112	1,613	2,551
Tax	(168)	(184)	(347)	(500)
Deprec. & amort.	0	405	417	423
Associates	11	0	0	0
Working capital changes	(616)	(183)	(1,042)	(1,079)
Non-cash items	149	861	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	686	567	643
Proceeds from borrowings	(12)	(88)	0	0
Loan repayment	0	0	0	1
Others/interest paid	(317)	46	(563)	383
Net cash inflow (outflow)	(2,654)	2,205	1,969	2,789
Beginning cash & cash equivalent	10,838	7,597	9,802	11,771
Changes due to forex impact	n.a.	n.a.	n.a.	n.a.
Ending cash & cash equivalent	7,597	9,820	11,789	14,578

**KEY METRICS**

Year to 31 Dec (%)	2022	2023F	2024F	2025F
<b>Profitability</b>				
EBITDA margin	(9.1)	8.6	11.4	15.0
Pre-tax margin	(10.7)	7.3	10.2	14.3
Net margin	(14.5)	6.1	8.1	11.5
ROA	n.a.	5.3	6.6	9.3
ROE	n.a.	14.2	14.2	16.6
<b>Growth</b>				
Turnover	25.1	22.5	3.3	13.5
EBITDA	n.a.	n.a.	36.0	49.5
Pre-tax profit	n.a.	n.a.	45.0	58.2
Net profit	n.a.	n.a.	36.2	61.8
Net profit (adj.)	n.a.	n.a.	36.2	61.8
EPS	n.a.	n.a.	26.0	55.6
<b>Leverage</b>				
Debt to total capital	37.1	35.5	28.2	22.3
Debt to equity	60.0	55.8	39.6	28.9
Net debt/(cash) to equity	(73.0)	(76.3)	(73.0)	(72.6)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.

## Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

**This report is prepared for general circulation.** It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

## IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

### Analyst Certification/Regulation AC

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received 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. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia ("OJK"). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ('U.S.')	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

Copyright 2023, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W