

COMPANY UPDATE

SEA (SE US)

Enough Muscles For Shopee-ng?

SEA's share price has appreciated more than 10% since it turned profitable for the first time in 4Q22. While the e-commerce segment's GMV may slow in the coming quarters, we expect its margin to continue improving from increasing commission fees and expansion of its own logistic services. In addition, the digital financial services could leverage on Shopee's strong user base to provide more effective underwriting and better offerings. Maintain BUY and target price of US\$94.34.

WHAT'S NEW

- **Sea Limited's (SEA) share price has appreciated by 13.8%** after it turned profitable for the first time. It is also the first e-commerce company in the Southeast Asia region, to report positive net quarterly income in 4Q22. While investors are still keeping a close eye on its profitability journey, we reckon that the positive surprises from its 4Q22 results could continue to provide an upward momentum for SEA.
- The e-commerce and financial services segments would take the limelight to drive its revenue. We had pencilled in 15% yoy 2023 revenue growth for the e-commerce and digital financial services (DFS) segment respectively. We expect both segments to contribute positive operating profit in 2023.
 - Expansion of margin for the e-commerce segment.** While we reckon that gross merchandise value (GMV) growth maybe slower in the upcoming quarters given the macro headwinds, we believe the increase in its commission fees as well as the streamlining and expanding of its own logistic services would boost its margin. Its e-commerce arm, Shopee, had increased commission fees as much as 53-242bp in some of the major operating countries such as Malaysia, Indonesia, Thailand, Taiwan and the Philippines, starting from Jan 23 (please refer to the table in pg 2 for further details).
 - The digital financial services segment could be the next mover.** With its advantage of leveraging Shopee to gain strong user bases, we believe this would give its DFS segment highly relevant insight for more effective underwriting and better offering to its customers. Its digital bank, Maribank, recently opened to the public (by invitation only), which offers a savings account with an interest rate of 2.5% a year, with no minimum deposit, salary credit requirement or minimum spend amount.
- **Potential first yearly net profit for 2023.** With the strong set of results reported in 4Q22, proving SEA's strong focus on its efficiency and profitability, we reckon that it 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 fees for its e-commerce segment, b) higher contribution from its value-added service segment such as logistics, and c) higher contribution from its DFS segment.

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.	43.9	35.7	23.0
P/B (x)	5.3	7.2	5.7	4.4	3.3
EV/EBITDA (x)	n.m.	n.m.	26.7	20.0	13.4
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	-	-	550	1,215	2,103
UOBKH/Consensus (x)	-	-	1.74	1.05	0.98

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\$73.45
Target Price	US\$94.34
Upside	+28.4%

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):	41,259.7
Market cap (US\$m):	41,259.7
3-mth avg daily t'over (US\$m):	360.5

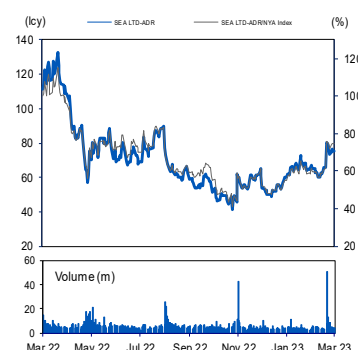
Price Performance (%)

52-week high/low	US\$132.72/US\$40.92
1mth	13.0
3mth	15.6
6mth	16.5
1yr	(19.3)
YTD	41.2

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

- **Focus on efficiency, ...** With the industry players still on a cost cutting journey, we reckon SEA's sales & marketing expenses per revenue ratio would remain at the current level moving forward (3Q22: 25.9%, 4Q22: 13.7%). The sales and marketing expenses were slashed by 42% qoq and 61% qoq in 4Q22, which is in line with the group's effort to optimise its operating costs and achieve higher cost efficiencies. We reckon that the group would still continue to focus on efficiency where its sales & marketing expenses per revenue is lower than its peers.
- **...strong customer stickiness and stable market share.** Despite having lower sales and marketing expenses per revenue ratio than its peers, SEA's GMV per order still grow 11% qoq in 4Q22. This indicates strong customer stickiness and market share on its Shopee platform.
- **Slowdowns in digital entertainment sector, but players still active in the game.** We expect a slowdown in Garena's growth, given the declining users and lack of strong games pipelines. Having said that, we believe the active players are still in the game, especially in Free Fire, given that the revenue per paying user in 4Q22 had increased by 9.8% qoq.
- **Potential sale of Phoenix Labs.** In late-Jan 23, Bloomberg reported that SEA was considering a sale of Vancouver-based indie developer Phoenix Labs. We believe that this is in line with the company's strategy to focus on its core business and profitability. Phoenix Labs was acquired by Garena about three years ago with valuation of about US\$150m (representing about 2% of SEA's total cash). Assuming the deal materialises, we believe that this would not affect Garena's core business, given that Phoenix Labs focuses more on video games (ie Playstation, Xbox, Nintendo) which are not Garena's forte where it focuses more on mobile games. We view the deal as slightly positive for SEA, allowing SEA's resources to focus on its current main business strategy.

KEY STATISTICS

Year to 31 Dec (US\$m)	4Q22	qoq % chg	yoy % chg	2022	yoy % chg
Digital					
Entertainment					
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
E-Commerce					
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 LTD, UOB Kay Hian

SOTP VALUATION SUMMARY

	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
Total (rounding off)				94.34

Source: UOB Kay Hian

EARNINGS REVISION/RISK

- **Maintain earnings.** We maintain our earnings forecast for SEA at US\$935m, US\$1.27b and US\$2.06b for 2023-25 respectively, where 2023 may be its first ever annual net profit.

VALUATION/RECOMMENDATION

- **Maintain BUY with a target price of US\$94.34** on the back of its potential first annual net profit in 2023 with first positive operating income from its e-commerce and DFS segments. Given the current macro headwinds, we expect the share price to trade sideways and be buoyed by its positive earnings momentum moving forward. Investors may also need to keep an eye on the upcoming FOMC meeting; if there is a slowdown in interest rate hike, this may boost the market sentiment with the expectation of better consumer spending.

SHARE PRICE CATALYST

- New release of self-developed games.
- Earlier-than-expected annual net profit in 2023.
- Upcoming FOMC meeting; if there is a slowdown in interest rate hike, it may boost the market sentiment with the expectation of better consumer spending.

SHOPEE COMMISSION FEES COMPARISON ACROSS REGION

Category	Singapore	Malaysia Marketplace	Malaysia Mall	Philippines Marketplace	Philippines Mall	Indonesia	Vietnam	Thailand	Taiwan
Electronics		2.65 - 4.24%	4%					4.28 - 6.42%	
Fashion	2.16%	4.24%	6%	3.5 - 5%	3.36 - 6.72%	2.5%, 4.5% or 6.5%	0.8 - 2.3%	6.42%	6%
FMCG		0 - 4.24%	4-6%					6.42%	
Lifestyle		3.71 - 4.24%	6%					6.42%	
Previous rate	2%	2.12%	-	2 - 5%	-	1%, 3% or 5%	-	-	-
Effective from	1 May 2022	10 Jan 2023	11 Aug 2022	1 Jan 2023	1 Jan 2023	1 Jan 2023	1 Nov 2022	1 Feb 2023	1 Jan 2023

Source: Shopee, 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

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

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

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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