

### COMPANY RESULTS

#### SEA (SE US)

1Q23: Another Good Set Of Results; Focus Remains On Profitability

SEA reported its second consecutive quarter of positive earnings in 1Q23. This is well within our expectations with a lower digital entertainment contribution. We expect 2Q23 earnings to remain healthy with: a) management guiding that the active users for of Free Fire had reached its peak in Apr 23 over the last eight months, b) the e-commerce segment remaining resilient with stable margins, and c) increasing loan base for DFS segment. Maintain BUY with a target price of US\$94.34.

#### 1Q23 RESULTS

Year to 31 Dec (US\$m)	1Q22	4Q22	1Q23	qoq % chg	yoy % chg	Remarks
Revenue	2,900	3,452	3,041	(11.9)	4.9	
Gross profit	1,170	1,697	1,417	(16.5)	21.1	
Adj. EBITDA	(510)	496	507	2.3	n.m	
Digital Entertainment	431	258	230	(10.9)	(46.7)	
E-Commerce	(743)	196	208	5.9	n.m	
Digital Financial Service	(125)	76	99	30.9	n.m	
Net profit	(580)	423	87	(79.4)	n.m	Above expectations.
Core net profit	(580)	271	205	(24.0)	n.m	
	(+/- bps)		(+/- bps)		(+/- bps)	
Gross margin (%)	40.4	49.2	46.6	(2.6)	6.2	
Adj EBITDA margin (%)	(17.6)	14.4	16.7	2.3	34.3	

Source: SEA, UOB Kay Hian

#### RESULTS

- **Another strong positive quarter in 1Q23.** SEA's 1Q23 results remain positive for the second consecutive quarter after hitting its first record positive net profit in 4Q22. If we were to exclude the one-off impairment of goodwill of US\$177.9m, core net profit came in at US\$205m (-24% qoq, +>100% yoy). This is well within our expectations, with 1Q23 core net profit contributing 21% of our full-year forecast for 2023.
- We remain positive on SEA's achievements and expect 2023 to be the first annual positive net profit with the improvement from all segments. Note that SEA had also achieved positive free cash flow in 1Q23, with the management continuing to focus on their long-term strategy of business opportunities in a profitable and sustainable way.

#### 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.	52.6	42.8	27.5
P/B (x)	6.3	8.6	6.8	5.2	4.0
EV/EBITDA (x)	n.m.	n.m.	33.1	24.8	16.6
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	-	-	1,315	1,620	2,087
UOBKH/Consensus (x)	-	-	0.73	0.79	0.99

Source: SEA, Bloomberg, UOB Kay Hian

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

### BUY

(Maintained)

Share Price	US\$88.07
Target Price	US\$94.34
Upside	+7.1%

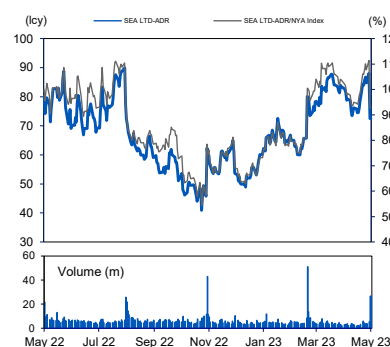
#### COMPANY DESCRIPTION

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):		49,914.5		
Market cap (US\$m):		49,914.5		
3-mth avg daily t'over (US\$m):		371.5		
Price Performance (%)				
52-week high/low		US\$89.97/US\$40.92		
1mth	3mth	6mth	1yr	YTD
5.4	31.8	49.9	25.2	69.3
Major Shareholders				%
-				-
-				-
-				-
FY23 NAV/Share (US\$)				12.91
FY23 Net Cash/Share (US\$)				9.69

#### PRICE CHART



Source: Bloomberg

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### STOCK IMPACT

#### • 1Q23 earnings highlights:

- a) **Digital entertainment:** Lower qoq and yoy earnings mainly due to the lower contribution from the digital entertainment segment with less quarterly paying users.
  - b) **E-commerce:** Higher qoq and yoy earnings with higher revenue from core market place which consists of higher transaction-based fees and revenue from value-added services (mainly related to logistics).
  - c) **Digital financial services:** Higher qoq and yoy earnings with higher total loans receivable at US\$2.0b as of Mar 23. The non-performing loans due by more than 90 days as a percentage of the total gross receivable remain stable at around 2%.
- **Cost efficiency.** As we mentioned in our previous note, SEA would continue to focus on its efficiency, with the sales & marketing expenses to revenue ratio in 1Q23 remaining stable at 13.2% (4Q22: 13.7%, 1Q22: 34.7%).

#### • 2Q23 outlook. We expect 2Q23 earnings to remain healthy on the back of:

- a) **More active users in the game.** The management guided that the monthly active user for its self-developed game, Free Fire, had reached its new peak in the last eight month period. They had seen more positive response from the gaming community after Garena, its digital entertainment arm, optimised various aspects of gameplay and game mechanics based on user feedback to ensure user stickiness. The management also highlighted that there are some new third-party games in the pipeline to be launched in 2H23.
- b) **E-commerce to remain resilient.** We expect stable margins for its e-commerce arm, Shopee, with strong transaction-based fees and the increase in value-added service revenue (especially related to logistics). We reckon that the logistics services cost leadership strategy by increasing the capacity and integration for their in-house logistics arm and automation to their delivery centre which would enhance the segment's margin. The management had also guided that their Shopee Brazil can be able to breakeven soon with their strong growth and significant appearance in Brazil.
- c) **Digital financial services.** We understand that SeaMoney has been increasing its external funding for its digital financial services (especially in Indonesia). We expect this segment would continue growing with the increasing loan base, expansion of e-wallet (leveraging on Shopee) and other new products like insurtech.

### EARNINGS REVISION/RISK

- **Maintain earnings.** We maintain our net profit forecast at US\$959m, US\$1,272m and US\$2,059m for 2023-25F respectively. 2023 may be the first year SEA records an annual net profit.

### VALUATION/RECOMMENDATION

- **Maintain BUY with target price of US\$94.34.** We reckon that the share price may weaken in the near term, in view of the lower qoq earnings in 1Q23. However, we maintain our BUY recommendation and recommend investors to accumulate on weakness in the view that SEA to be the first South East Asia e-commerce company to record positive earnings for 2023.

### 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	1Q23	qoq % chg	yoy % chg
Digital Entertainment				
Booking (US\$m)	544	462	(15.0)	(42.2)
Average quarterly QAU (m)	486	492	1.3	(20.2)
Average quarterly QPU (m)	44	38	(14.0)	(38.8)
Booking per QPU (US\$)	12.4	12.3	(1.2)	(5.6)
Revenue per QPU (US\$)	76.3	43.9	(42.5)	(49.6)

Source: SEA, UOB Kay Hian

### SOTP VALUATION SUMMARY (REVISED)

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

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

## 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
<b>Total assets</b>	<b>17,003</b>	<b>17,873</b>	<b>20,408</b>	<b>23,709</b>
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
<b>Total liabilities &amp; equity</b>	<b>17,003</b>	<b>17,873</b>	<b>20,408</b>	<b>23,709</b>

## 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
<b>Profitability</b>				
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
<b>Growth</b>				
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
<b>Leverage</b>				
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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