

COMPANY UPDATE

Sea (SE US)

Recent Developments Are Positive For The Company

We reiterate **BUY** on SEA amid the recent positive developments. The revised Regulation of Minister of Trade in Indonesia favours Shopee's competitive standing, while Garena's Free Fire re-entry into the Indian market (which previously accounted for 10% of its monthly active users) signals additional growth avenues. We believe there is room for share price to re-rate further, primarily due to lower-than-anticipated sales and marketing costs. Target price remains at **US\$94.34**.

WHAT'S NEW

- We reiterate BUY on Sea Limited (SEA) on the back of the recent positive development and newsflow which would benefit SEA directly. Below are some of the newsflow and impact:

- The Indonesian government has banned goods transactions on social media platforms** as it aims to protect small businesses from e-commerce competition, based on the latest regulation of Minister of Trade. Other key highlights from the revised regulation regarding e-commerce sector include: a) imported goods must meet the same criteria as local products regarding standards, certification, permits etc, b) e-commerce and social commerce must operate independently to safeguard personal data, c) e-commerce platforms cannot act as goods manufacturers, and d) sales of imported items under US\$100 are banned on e-commerce sites.

- Positive for incumbents such as Shopee.** The revised Indonesian rules favour dominant players like Shopee in Indonesia as they increase barriers to market entry given Shopee's (SEA's e-commerce business) market leadership in the ASEAN region. Note that Indonesia is the largest contributor to ASEAN gross merchandise value (GMV), accounting for 52% of the ASEAN region with Shopee taking the lead at 36% of total GMV in Indonesia. The new regulation will give SEA a competitive edge, and aligns well with management's focus on strengthening its e-commerce segment due to existing market rivalry. Its ongoing investment in livestream e-commerce will also likely: a) boost its market share, b) attract more influencers, and c) allow it to capitalise on this shopping trend.

- Potentially higher-than-expected earnings for e-commerce segment.** In light of the recent regulation of Minister of Trade, we expect Shopee's sales and marketing expenses in the upcoming quarters to be lower than market expectations. This stands in contrast to market expectations of elevated costs, driven by a competitive landscape peppered with new entrants, as discussed in the Aug 23 analyst briefing and corroborated by Shopee's internal memo in early-Sep 23.

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.	25.1	20.5	13.2
P/B (x)	3.0	4.1	3.3	2.5	1.9
EV/EBITDA (x)	n.m.	n.m.	13.7	10.3	6.9
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	-	-	1,044	1,105	1,554
UOBKH/Consensus (x)	-	-	0.92	1.15	1.32

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\$42.09
Target Price	US\$94.34
Upside	+124.1%

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):	23,854.9
Market cap (US\$m):	23,854.9
3-mth avg daily t'over (US\$m):	341.5

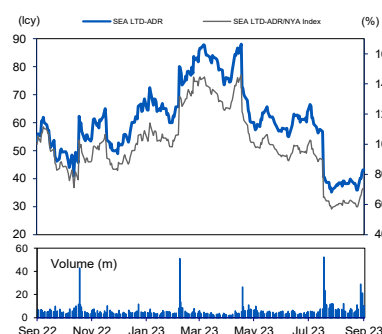
Price Performance (%)

52-week high/low	US\$88.07/US\$35.21			
1mth	3mth	6mth	1yr	YTD
14.1	(26.3)	(48.5)	(24.5)	(19.1)

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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- **Garena has announced the reintroduction of Free Fire to the Indian market**, following a ban by the government that lasted over 18 months. However, the relaunch of Free Fire India has been postponed due to the overwhelmingly enthusiastic response in India and Garena is refining the gameplay for a better gaming experience. No date has been officially announced. Note that that India used to make up around 10% of Garena's monthly active users. If we assume a similar rate of growth in the gaming segment's EBITDA, this would lift EBITDA by about 5%.

STOCK IMPACT

• We expect SEA to continue to post resilient earnings in 2H23 on the back of:

a) E-commerce segment to remain resilient amid competition. In our assessment, Shopee exhibits resilience in a competitive e-commerce landscape, underpinned by a stable margin outlook. Our projections indicate a 15% yoy revenue growth for 2023, driven by higher transaction-based fees and augmented contributions from value-added logistics services. This is further complemented by a cost leadership strategy in logistics, which involves increased capacity and automation. Additionally, Shopee is set to expand its footprint, as signalled by a new warehouse in Jakarta aimed at boosting MSME exports. While pursuing growth in current and prospective markets may exert downward pressure on margins, Shopee Brazil is expected to achieve breakeven soon with its strong growth and marked presence.

b) Strong growth from digital financial services. As previously emphasised, we expect SEA's digital financial arm, encompassing e-wallets, digital banking, and credit operations, to serve as a significant growth catalyst. The substantial earnings uptick in the credit business for 2Q23, coupled with the synergistic relationship between Shopee and SeaMoney, underscores this outlook. With impending digital banking licences set to be owned by Shopee in multiple countries such as Singapore and Malaysia, we believe this segment is well-positioned to further unlock growth avenues.

c) Resilient earnings for digital entertainment. The number of monthly active users has continued to grow, and there is also long-term stabilisation of its self-developed game, Free Fire.

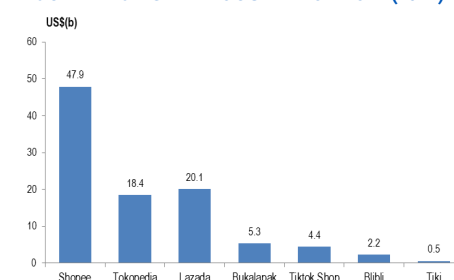
EARNINGS REVISION/RISK

• **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

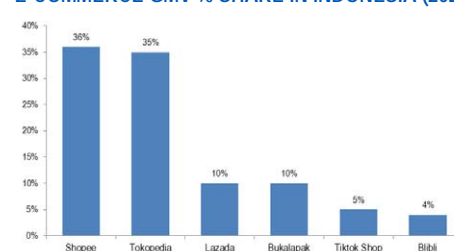
• **Maintain BUY with a target price US\$94.34** buoyed by SEA's unparalleled profitability in the ASEAN region. Anticipated earnings for upcoming quarters are projected to outperform market expectations. SEA's unique position as the sole profitable entity in both e-commerce and digital financial services within the ASEAN area should not be underestimated. Specifically, the robust market standing of SeaMoney and the exceptional efficiency of its digital finance segment further endorse this optimistic outlook.

E-COMMERCE GMV IN SOUTHEAST ASIA (2022)



Source: Momentum Works, UOB Kay Hian

E-COMMERCE GMV % SHARE IN INDONESIA (2022)



Source: Momentum Works, 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	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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