

COMPANY RESULTS

SEA (SE US)

3Q23: Results In Line; 4Q23 Could Be Better Due To Seasonality

SEA's 9M23 earnings were in line at 85% of our full-year estimate; 3Q23 net loss was expected due to increased sales and marketing expenses for its e-commerce segment despite revenue growth. We expect 4Q23 earnings to improve qoq with all segments seeing improvement during the festive season. However, e-commerce margin may remain low due to the high trade-off cost. Maintain BUY with a target price of US\$72.25.

3Q23 RESULTS

Year to 31 Dec (US\$m)	3Q23	qoq % chg	yoy % chg	9M23	yoy % chg	Remarks
Revenue	3,310	6.9	4.9	9,447	5.0	
Gross profit	1,441	(0.7)	17.4	4,309	23.5	
Adj. EBITDA	35	(93.1)	(109.9)	1,052	n.m	
Digital Entertainment	234	(2.3)	(19.3)	704	-33.3	
E-Commerce	(346)	(330.5)	(30.1)	12	n.m	
Digital Financial Service	166	21.0	(344.6)	402	n.m	
Net profit	(144)	(143.5)	(74.7)	1,052	n.m	
Core net profit	(149)	(146.4)	(73.6)	274	n.m	
		(+/- bps)	(+/- bps)		(+/- bps)	
Gross margin (%)	43.5	(3.3)	4.6	45.6	6.8	
Adj EBITDA margin (%)	1.1	(15.4)	12.4	11.1	26.4	

Source: SEA LTD, UOB Kay Hian

RESULTS

- **In the red in 3Q23, within our expectation.** SEA Limited (SEA) was in the red again with a net loss of US\$144m in 3Q23 (down 75% yoy). 9M23 net profit is at US\$261m, accounting for 85% of our full-year forecast. This is within our expectation as we highlighted in our previous note that SEA had switched into reinvestment mode, especially for its e-commerce segment.
- **The weaker qoq performance in 3Q23** was mainly dragged by the huge increase in e-commerce sales and marketing expenses which surged 155% qoq and 50% yoy despite qoq and yoy revenue growth for the segment. Management shared that the higher sales and marketing expenses to capture market leadership given the entrance of new players has caused intensified competition in the e-commerce market, such as more investment in livestreaming operations and logistic network expansion.

KEY FINANCIALS

Year to 31 Dec (US\$m)	2021	2022	2023F	2024F	2025F
Net turnover	9,955	12,450	12,751	14,050	14,930
EBITDA	(1,583)	(1,133)	613	1,191	1,457
Operating profit	(1,583)	(1,133)	613	1,191	1,457
Net profit (rep./act.)	(2,045)	(1,496)	306	745	1,025
Net profit (adj.)	(2,045)	(1,496)	306	745	1,025
EPS (US\$ cent)	(383.4)	(268.1)	55.0	120.7	160.2
PE (x)	n.m.	n.m.	83.7	38.1	28.7
P/B (x)	3.3	4.5	3.8	3.1	2.5
EV/EBITDA (x)	n.m.	n.m.	32.3	16.6	13.6
Dividend yield (n.a.)	n.a.	n.a.	n.a.	n.a.	n.a.
Net margin (%)	(20.5)	(12.0)	2.4	5.3	6.9
Net debt/(cash) to equity (%)	(98.2)	(73.0)	(95.6)	(98.8)	(99.6)
Interest cover (x)	(15.7)	n.a.	n.a.	n.a.	n.a.
ROE (%)	n.a.	n.a.	4.9	9.4	9.7
Consensus net profit	-	-	943	1,079	1,586
UOBKH/Consensus (x)	-	-	0.32	0.69	0.65

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\$46.03
Target Price	US\$72.25
Upside	+57.0%

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):	26,087.9
Market cap (US\$m):	26,087.9
3-mth avg daily t'over (US\$m):	342.1

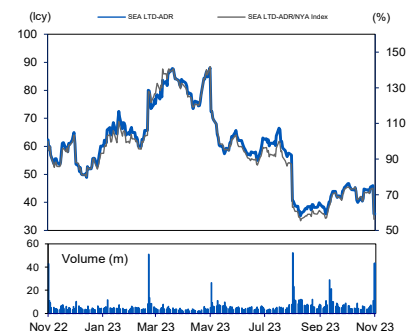
Price Performance (%)

52-week high/low	US\$88.07/US\$35.21
1mth	1.0
3mth	(19.1)
6mth	(45.7)
1yr	0.5
YTD	(11.5)

Major Shareholders

Major Shareholders	%
Forrest Li	25.2
Tencent	18.6
FY23 NAV/Share (US\$)	12.02
FY23 Net Cash/Share (US\$)	11.49

PRICE CHART



Source: Bloomberg

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• Key segments performance in 3Q23:

- a) **Digital entertainment (-2% qoq, -19% yoy):** Quarterly active users remained flat; however, the quarterly paying users' ratio had dropped slightly.
- b) **E-commerce (-330% qoq, -30% yoy):** Reported EBITDA loss of US\$428m mainly due to higher sales and marketing expenses, despite revenue growth of 6% qoq and 16% yoy. The average monthly active buyers grew 11% qoq, with increased order frequency and improved buyer retention. Gross orders and gross merchandise value (GMV) achieved 24% and 11% sequential growth respectively, further increasing market share.
- c) **Digital financial services (+21% qoq):** Continued to perform well as expected with increasing gross loans receivables. NPL continued to remain low at 1.6%, improving qoq. Noted that as of end-3Q23, total credit portfolio was at US\$2.9b, growing 5% sequentially. The portfolio included US\$2.4b of gross loans receivable on our balance sheet. The remaining US\$0.5b of principal amount of loans outstanding were from channeling arrangements, which is lending by other financial institutions on their platform.

STOCK IMPACT

• Key highlights from the result briefing:

- a) **Continuing emphasis on reinvestment,** with management highlighting ongoing investments in user acquisition for the festive season. Having said that, gross merchandise value (GMV) is expected to grow with enhanced users' retention and a rise in the average monthly active buyers.
 - b) **Positive sign of investment – solid growth from Shopee Live.** Management reported significant traction in live streaming, with a 10% qoq increase in average daily orders in 3Q23. SEA has successfully attracted numerous new buyers and deepened engagement levels among existing buyers. Notably, in Indonesia, one in every five daily active users engaged in live streaming on average in Oct 23.
 - c) **Digital financial services would continue to improve.** Management articulated intentions to further refine the digital financial services by diversifying the credit portfolio across various markets and products, both within and beyond Shopee platforms. Additionally, efforts will be made to optimise funding sources to reduce costs and mitigate risks through diversification.
- **4Q23 outlook.** We reckon that 4Q23 earnings may be better qoq, attributable to:
- a) **Higher GMV from the e-commerce segment** during the festive season. Having said that, we reckon that margin will remain low for the e-commerce segment due to the higher sales and marketing expenses.
 - b) **Expectation of stability in digital entertainment,** supported by a larger active user base resulting from heightened user engagement and an enriched social experience for gamers.
 - c) **Healthy growth from digital financial services** leveraging on Shopee platform. Additionally, offline products such as digital banks are steadily growing, demonstrated by continued performance improvements in Indonesia, the Philippines, and Singapore.

EARNINGS REVISION/RISK

- **Maintain our earnings forecast** for SEA at US\$306m, US\$745m and US\$1.03b for 2023-25 respectively. Having said that, we reckon there is a possibility that the financial performance in 4Q23 might remain in the negative if GMV growth fails to offset the increased expenses related to sales and marketing during that period.

VALUATION/RECOMMENDATION

- **Maintain BUY with a target price of US\$72.25.** We maintain BUY with the positive sign of its investment and we reckon that SEA would be able to turn black in 6-12 months' time as it solidifies its market leadership in the e-commerce industry.

SHARE PRICE CATALYST

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

KEY STATISTICS

Year to 31 Dec (US\$m)	3Q23	qoq % chg	yoy % chg
Digital Entertainment			
Booking (US\$m)	448	1.1	(32.6)
Average quarterly QAU (m)	544	(0.1)	(4.2)
Average quarterly QPU (m)	41	(6.0)	(21.7)
Booking per QPU (US\$)	11.1	7.6	(14.0)
Revenue per QPU (US\$)	53.5	4.0	(22.9)

Source: SEA LTD, UOB Kay Hian

SOTP VALUATION SUMMARY (REVISED)

	2024F net profit/ sales (US\$m)	Valuation Method	Valuation (x)	Fair Value (US\$)
Digital Entertainment	1,424 (net profit)	PE	9.0	23.02
E-Commerce	8,303 (sales)	PS	1.5	22.37
Digital Financial Services	748 (net profit)	PE	20.0	26.85
Total				72.25

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
Net turnover	12,450	12,751	14,050	14,930
EBITDA	(1,133)	613	1,191	1,457
Deprec. & amort.	0	0	0	0
EBIT	(1,133)	613	1,191	1,457
Associate contributions	11	0	0	0
Net interest income/(expense)	70	14	55	108
Pre-tax profit	(1,334)	420	1,038	1,357
Tax	(168)	(118)	(300)	(339)
Minorities	6	4	6	6
Net profit	(1,496)	306	745	1,025
Net profit (adj.)	(1,496)	306	745	1,025

CASH FLOW

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
Operating	(2,124)	2,753	3,071	2,248
Pre-tax profit	(1,501)	420	1,038	1,357
Tax	(168)	(118)	(300)	(339)
Deprec. & amort.	0	405	417	423
Associates	11	0	0	0
Working capital changes	(616)	1,298	214	97
Non-cash items	149	749	1,701	709
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	574	506	537
Proceeds from borrowings	(12)	(88)	0	0
Loan repayment	0	0	0	1
Others/interest paid	(317)	158	(502)	488
Net cash inflow (outflow)	(2,654)	2,948	2,637	2,827
Beginning cash & cash equivalent	10,838	7,597	10,545	13,183
Changes due to forex impact	n.a.	n.a.	n.a.	n.a.
Ending cash & cash equivalent	7,597	10,545	13,183	16,009

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	2,946	2,981	3,017
Cash/ST investment	7,597	10,545	13,183	16,009
Other current assets	5,109	3,612	3,878	4,102
Total assets	17,003	18,521	21,463	24,556
ST debt	88	0	0	0
Other current liabilities	6,847	6,671	7,170	7,508
LT debt	3,339	4,148	4,148	4,148
Other LT liabilities	918	918	918	918
Shareholders' equity	5,716	6,694	9,143	11,904
Minority interest	95	91	85	78
Total liabilities & equity	17,003	18,521	21,463	24,556

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	(9.1)	4.8	8.5	9.8
Pre-tax margin	(10.7)	3.3	7.4	9.1
Net margin	(12.0)	2.4	5.3	6.9
ROA	n.a.	1.7	3.7	4.5
ROE	n.a.	4.9	9.4	9.7
Growth				
Turnover	25.1	2.4	10.2	6.3
EBITDA	n.a.	n.a.	94.4	22.3
Pre-tax profit	n.a.	n.a.	147.4	30.7
Net profit	n.a.	n.a.	143.1	37.6
Net profit (adj.)	n.a.	n.a.	143.1	37.6
EPS	n.a.	n.a.	119.4	32.7
Leverage				
Debt to total capital	37.1	37.9	31.0	25.7
Debt to equity	60.0	62.0	45.4	34.8
Net debt/(cash) to equity	(73.0)	(95.6)	(98.8)	(99.6)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.

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