

COMPANY RESULTS

SEA (SE US)

4Q23: Misses Expectations But Mid-term Prospects Intact

SEA's 2023 net profit of US\$163m was below our expectations, making up 81% of our full-year estimate. The 4Q23 net loss of US\$91.4m was largely due to higher sales and marketing expenses (+132% yoy) for the e-commerce segment, offset by its revenue growth. We expect all segments to record growth in 2024, particularly the e-commerce segment as competition stabilises. Maintain BUY with a lower target price of US\$63.35.

4Q23 RESULTS

Year to 31 Dec (US\$m)	4Q23	qoq % chg	yoy % chg	2023	yoy % chg	Remarks
Revenue	3,617	9.3	4.8	13,064	4.9	
Gross profit	1,525	5.8	(10.2)	5,834	12.5	
Adj. EBITDA	127	259.1	(74.4)	1,179	(234.3)	
Digital Entertainment	217	(7.1)	(15.8)	921	(29.9)	
E-Commerce	(225)	35.0	(214.9)	-214	87.4	
Digital Financial Service	148	(10.4)	96.4	550	(340.7)	
PATMI	(91)	38.7	(121.4)	169	(110.2)	Below expectations.
		(+/- bps)	(+/- bps)		(+/- bps)	
Gross margin (%)	42.2	(1.3)	(7.0)	44.7	+3.1	
Adj EBITDA margin (%)	3.5	+2.4	(10.9)	9.0	+16.1	

Source: SEA LTD, UOB Kay Hian

RESULTS

- **First annual profit since IPO.** SEA Limited (SEA) reported narrowing loss of US\$91.4m in 4Q23 (3Q23: US\$149.2m loss), in the black for the first year since listing with 2023 net profit of US\$162.7m. Excluding one-off items like goodwill impairment of US\$117.9m and net gain on debt extinguishment of US\$38.6m, core net profit is even higher at US\$248.4m for 2023. However, this missed our expectations, accounting for 81.2% of our forecast. This is largely due to lower-than-expected contributions from the digital entertainment segment.
- **Smaller loss in 4Q23 stems from e-commerce**, which saw strong revenue growth of 23.2% yoy to US\$2.6b. This was partially offset by softer contributions from the digital entertainment segment, which registered 13.7% qoq and 46.2% yoy declines in revenue, and higher sales marketing expenses (+104.3% yoy, +5.4% qoq) incurred.

KEY FINANCIALS

Year to 31 Dec (US\$m)	2021	2022	2023	2024F	2025F
Net turnover	9,955	12,450	13,064	13,250	14,331
EBITDA	(1,583)	(1,488)	225	865	1,214
Operating profit	(1,583)	(1,488)	225	865	1,214
Net profit (rep./act.)	(2,047)	(1,651)	169	361	561
Net profit (adj.)	(2,047)	(1,651)	169	361	561
EPS (US\$ cent)	(383.8)	(295.9)	30.4	59.8	89.7
PE (x)	n.m.	n.m.	168.2	85.4	56.9
P/B (x)	3.7	5.0	4.3	3.6	2.9
EV/EBITDA (x)	n.m.	n.m.	105.1	27.3	19.5
Dividend yield (n.a.)	n.a.	n.a.	n.a.	n.a.	n.a.
Net margin (%)	(20.6)	(13.3)	1.3	2.7	3.9
Net debt/(cash) to equity (%)	(98.2)	(73.0)	(43.9)	(62.6)	(71.7)
Interest cover (x)	(15.7)	n.a.	n.a.	n.a.	n.a.
ROE (%)	n.a.	n.a.	2.7	4.7	5.7
Consensus net profit	-	-	-	656	1,278
UOBKH/Consensus (x)	-	-	-	0.55	0.44

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\$51.05
Target Price	US\$63.35
Upside	+24.1%
(Previous)	US\$72.25

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):	28,933.0
Market cap (US\$m):	28,933.0
3-mth avg daily t'over (US\$m):	308.8

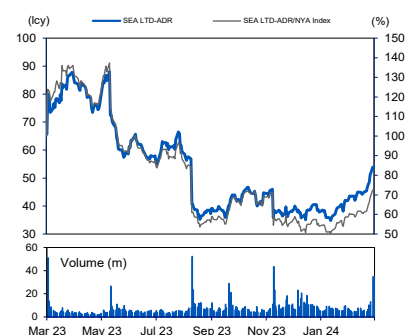
Price Performance (%)

52-week high/low	US\$88.07/US\$34.82			
1mth	3mth	6mth	1yr	YTD
21.5	33.6	32.5	(22.3)	26.0

Major Shareholders

	%
-	-
FY24 NAV/Share (US\$)	14.31
FY24 Net Cash/Share (US\$)	8.96

PRICE CHART



Source: Bloomberg

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• Key segments' adjusted EBITDA performance in 4Q23:

- a) **Digital entertainment (-7% qoq, -16% yoy):** User engagement and monetisation continued to normalise, with sequential drops in quarterly active and paying users; however, the paying user ratio remained flat qoq at 7.5% while average bookings per user improved 4.8% qoq to US\$0.86.
- b) **E-commerce (+35% qoq, -215% yoy):** The smaller qoq EBITDA loss of US\$225.3m is in line with revenue growth of 16% qoq and 23% yoy. Though sales and marketing expenses (+132% yoy) and logistical costs increased, gross orders surged 13% qoq and 46% yoy to 2.5b, while gross merchandise value (GMV) jumped 15% qoq and 29% yoy to US\$23.1b, demonstrating Shopee's market share gain in 2023.
- c) **Digital financial services (-10% qoq, +96% yoy):** Continued to record an operating profit with growth in the credit business. NPL remained low at 1.6%, stable qoq and yoy. Total credit portfolio was at US\$3.1b (+29% qoq, +27% yoy), comprising US\$2.5b of gross loans receivable on the balance sheet. The remaining US\$0.6b of loans principal outstanding were from channeling arrangements, which is lending by other financial institutions on their platform.

STOCK IMPACT

• Key highlights from the result briefing:

- a) **Targeting high-teens 2024 GMV and positive EBITDA for Shopee in 2H24.** With the competitive landscape stabilising, management shared that Shopee has managed to gain market share while improving unit economics. Its scale advantage as the market leader, price competitiveness and derived cost efficiencies places Shopee in a favourable position to maintain its growth trajectory. Additionally, Shopee Live has driven substantial growth, making up 15% of orders in the region.
- b) **Double-digit yoy growth in bookings and userbase for Free Fire.** Management has continued to drive user engagement under Free Fire, with new collaborations such as having JKT48, a popular Jakarta-based idol group, as its brand ambassador in Feb 24. In the same month, Free Fire achieved more than 100m peak daily active users per Sensor Tower. Management expects the strong growth momentum to continue into 2024.
- c) **Driving user acquisition in digital financial services.** Management continues to focus on investing in customer acquisition, both within and beyond Shopee, by diversifying its credit portfolio across various markets and products.

2024 outlook. We expect significant improvements in 2024 earnings from:

- a) **Higher GMV from the e-commerce segment** as Shopee continues to strengthen its logistics network, ramp up its livestreaming feature and optimise buyer/seller experiences. Though sales and marketing expenses may remain high, this may be partially offset by Shopee's increase in take rates across its markets.
- b) **Growth in digital entertainment,** driven by a more active and engaged user base as SEA continues to optimise its gaming experience and improve monetisation across its markets.
- c) **Further onboarding in digital financial services** as SeaMoney leverages on the Shopee platform to cross-sell products while looking outside of the platform and expanding its product offerings to serve untapped markets.

EARNINGS REVISION/RISK

- **Revised earnings.** We had adjusted our 2024-25F earnings lower by 51%/45% respectively, after factoring in the lower-than-expected 2023 figures.

VALUATION/RECOMMENDATION

- **Maintain BUY with lower target price of US\$63.35 (previous: US\$72.25),** with the optimistic outlook for 2024 on the back of stronger growth from all segments.

SHARE PRICE CATALYST

- New release of self-developed games.
- Higher-than-expected market share and margin in the operating countries.

KEY STATISTICS

Year to 31 Dec (US\$m)	4Q23	qoq % chg	yoy % chg	2023	yoy % chg
Digital					
Entertainment Booking (US\$m)	456	1.9	(83.8)	1,810	(34.2)
Average quarterly QAU (m)	529	(2.8)	8.9	527	(7.9)
Average quarterly QPU (m)	39.7	(2.0)	(9.1)	40.2	(24.4)
Booking per QPU (US\$)	11.5	3.9	(7.6)	11.3	(13.0)
Revenue per QPU (US\$)	12.9	(12.0)	(40.8)	13.5	(11.4)
E-Commerce					
Orders (m)	2,500	13.4	46.0	8,282	8.8
GMV (US\$m)	23,100	15.3	28.6	78,458	6.8
GMV per order (US\$)	9.2	1.7	(11.9)	9.5	(1.8)

Source: SEA LTD, UOB Kay Hian

SOTP VALUATION SUMMARY

	2024F net profit/ sales (US\$m)	Valuation Method	Valuation (x)	Fair Value (US\$)
Digital Entertainment	1,108 (net profit)	PE	9.0	17.9
E-Commerce	8,364 (sales)	PS	1.5	22.5
Digital Financial Services	638 (net profit)	PE	20	22.9
Total (rounding off)				63.35

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (US\$m)	2022	2023	2024F	2025F
Net turnover	12,450	13,064	13,250	14,331
EBITDA	(1,488)	225	865	1,214
Deprec. & amort.	0	0	0	0
EBIT	(1,488)	225	865	1,214
Associate contributions	11	(7)	0	0
Net interest income/(expense)	70	290	119	13
Pre-tax profit	(1,489)	425	859	1,101
Tax	(168)	(263)	(507)	(550)
Minorities	6	6	9	10
Net profit	(1,651)	169	361	561
Net profit (adj.)	(1,651)	169	361	561

CASH FLOW

Year to 31 Dec (US\$m)	2022	2023	2024F	2025F
Operating	(2,124)	935	4,855	1,765
Pre-tax profit	(1,501)	432	859	1,101
Tax	(168)	(263)	(507)	(550)
Deprec. & amort.	0	0	351	355
Associates	11	(7)	0	0
Working capital changes	(616)	597	2,481	172
Non-cash items	149	175	1,672	687
Other operating cashflows	n.a.	n.a.	n.a.	n.a.
Investing	(201)	(3,009)	(364)	(371)
Capex (growth)	0	0	(338)	(339)
Investments	(201)	(3,009)	0	0
Proceeds from sale of assets	0	0	0	0
Others	0	0	(25)	(32)
Financing	(329)	458	816	1,028
Dividend payments	0	0	0	1
Issue of shares	0	0	477	516
Proceeds from borrowings	(12)	178	(266)	0
Loan repayment	0	0	0	1
Others/interest paid	(317)	281	605	510
Net cash inflow (outflow)	(2,654)	(1,616)	5,307	2,421
Beginning cash & cash equivalent	10,838	7,610	4,244	9,551
Changes due to forex impact	n.a.	n.a.	n.a.	n.a.
Ending cash & cash equivalent	7,597	5,994	9,551	11,972

BALANCE SHEET

Year to 31 Dec (US\$m)	2022	2023	2024F	2025F
Fixed assets	1,388	1,208	1,212	1,218
Other LT assets	2,909	5,902	5,916	5,940
Cash/ST investment	7,597	5,994	9,551	11,972
Other current assets	5,109	7,553	5,824	6,077
Total assets	17,003	20,656	22,502	25,207
ST debt	88	147	0	0
Other current liabilities	6,847	8,022	8,620	8,849
LT debt	3,339	2,950	4,148	4,148
Other LT liabilities	918	948	948	948
Shareholders' equity	5,716	6,594	8,630	10,906
Minority interest	95	104	94	84
Total liabilities & equity	17,003	20,656	22,502	25,207

KEY METRICS

Year to 31 Dec (%)	2022	2023	2024F	2025F
Profitability				
EBITDA margin	(11.9)	1.7	6.5	8.5
Pre-tax margin	(12.0)	3.3	6.5	7.7
Net margin	(13.3)	1.3	2.7	3.9
ROA	n.a.	0.9	1.7	2.4
ROE	n.a.	2.7	4.7	5.7
Growth				
Turnover	25.1	4.9	1.4	8.2
EBITDA	n.a.	n.a.	285.0	40.3
Pre-tax profit	n.a.	n.a.	101.9	28.2
Net profit	n.a.	n.a.	113.4	55.5
Net profit (adj.)	n.a.	n.a.	113.4	55.5
EPS	n.a.	n.a.	97.0	49.9
Leverage				
Debt to total capital	37.1	31.6	32.2	27.4
Debt to equity	60.0	47.0	48.1	38.0
Net debt/(cash) to equity	(73.0)	(43.9)	(62.6)	(71.7)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.

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