

## COMPANY UPDATE

### SEA (SE US)

Higher Marketplace Commission And Reduction In Subsidies Indicate Better Competition Landscape

We expect SEA's adjusted EBITDA to continue showing sequential improvement in its upcoming 1Q24 results despite it being a seasonally weaker quarter. This is due to an improved landscape for e-commerce, as evidenced by the rise in take rates and subsidy cuts by SEA and its key competitor. The gaming segment is also expected to do well from a higher average monthly player count. We raise our target price by 24% to US\$78.39 to reflect the better e-commerce industry landscape. Maintain BUY.

#### WHAT'S NEW

- We expect Sea Limited's (SEA) adjusted EBITDA to continue showing sequential improvement in its upcoming results. This is despite 1Q typically recording a weaker quarterly performance qoq following the higher gross merchandise value (GMV) and digital entertainment bookings during the festive and holiday season in 4Q. To recap, SEA's adjusted EBITDA rose 259% qoq to US\$127m in 4Q23. The improvement will be supported by:
  - Better e-commerce competition landscape.** We note that TikTok has raised its marketplace commission fee and reduced subsidies for sellers in Malaysia and Thailand effective from Mar and Apr 24 respectively, and will be replicating this in Indonesia from May 24. These suggest stabilisation of the e-commerce environment in the Southeast Asia region, as competing platforms pivot to a greater focus on ROI. In Taiwan, management observed that Coupang's entry in 2023 had minimal impact on Shopee's presence, due to its different target audience and product offerings. In Brazil, Shopee continues to make good headway with its growing logistics network and product portfolio.
  - Improving unit economics for Shopee from higher take rates and decrease in subsidies.** SEA has been increasing its take rates and lowering discounts and shipping subsidies across Southeast Asia, effective from Dec 23 to Apr 24. New charges have also been imposed on sellers for additional features on its livestreaming platform, Shopee Live. These strategies will likely contribute to an improvement in EBITDA and better unit economics for the e-commerce segment. Additionally, Shopee Live is targeted to contribute 20-30% of physical order volume in Southeast Asia, vs 15% in Dec 23. We also note that spending has likely picked up earlier in preparation for Ramadan, which fell on 10 Mar 24 compared with 22 March in the preceding year.
  - Higher number of average monthly players suggests better top-line for gaming segment.** According to ActivePlayer.io, Garena's Free Fire average active monthly player count in 1Q24 was 22.4% higher qoq at 38,561 (4Q23: 31,498). The higher user engagement can be attributed to the unusual seasonality of the earlier Ramadan, as well as successful patch launches in Jan 24.
  - SeaMoney – Investing in user acquisition.** SeaMoney has been successfully expanding its credit and digital banking businesses, having achieved its first annual profit in 2023. As the online credit market remains underserved in Southeast Asia, SeaMoney has strong growth potential with the Shopee platform as a key leverage.

#### 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	58.5	87.8
PE (x)	n.m.	n.m.	204.3	105.9	70.6
P/B (x)	4.5	6.1	5.2	4.4	3.6
EV/EBITDA (x)	n.m.	n.m.	132.7	34.5	24.6
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)	(73.2)	(18.4)	(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	-	-	-	1,183	1,689
UOBKH/Consensus (x)	-	-	-	0.30	0.33

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\$62.01
Target Price	US\$78.39
Upside	+26.4%
(Previous)	US\$63.35)

#### 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):	35,144.7
Market cap (US\$m):	35,144.7
3-mth avg daily t'over (US\$m):	338.6

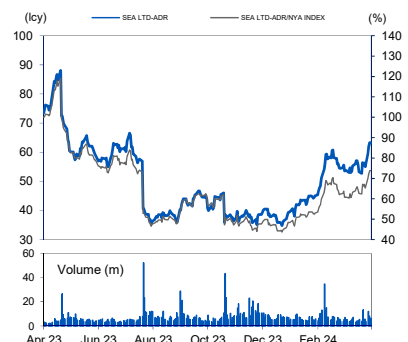
#### Price Performance (%)

52-week high/low	US\$88.07/US\$34.82			
1mth	3mth	6mth	1yr	YTD
13.8	57.9	36.9	(21.2)	53.1

#### Major Shareholders

	%
Forrest Li	25.2
Tencent	18.6
FY24 NAV/Share (US\$)	14.00
FY24 Net Cash/Share (US\$)	8.77

#### PRICE CHART



Source: Bloomberg

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## STOCK IMPACT

- **Shopee to be main growth driver.** While TikTok has returned to Indonesia via its merger with Tokopedia, its recent rate hikes point to a focus on improving ROI. Amid the stabilising e-commerce environment, SEA's e-commerce segment is expected to see better performance from higher take rates and subsidy cuts. We note that Shopee continues to enjoy a market-leading position in most of its operating markets, demonstrating the success of its customer acquisition and retention strategies implemented thus far. We have therefore raised our PS multiple to 2.5x (1.5x previously), closer to its peers' average of 3.0x.

## TIKTOK'S TAKE RATES IN SOUTHEAST ASIA

Country	Effective From	Prior Effective Take Rate	Current Effective Take Rate
Indonesia	1 Apr 24	1-4.3%	1-6.5%
Malaysia	1 Mar 24	2-5%	2-6%
Philippines	15 Jan 24	2.7-4.5%	3.8-5.3%
Singapore	1 Jan 24	3%	4%
Thailand	1 Apr 24	6.6%	6.6-8%
Vietnam	28 Sep 23	6%	6%

Source: TikTok Shop, UOB Kay Hian

## SHOPEE'S TAKE RATES IN SOUTHEAST ASIA

Country	Effective From	Prior Effective Take Rate	Current Effective Take Rate
<u>Indonesia</u>			
Marketplace sellers	Dec 23	1.25-3.2%	3.5-6.5%
ShopeeMall	Jan 24	2.62-6.62%	4.3-10.3%
<u>Malaysia</u>			
Marketplace sellers	Mar 24	2-6%	2-10%
ShopeeMall	Mar 24	4-11%	5-15%
<u>Philippines</u>			
Marketplace sellers	Apr 24	4%	6.5-7.8%
ShopeeMall	Apr 24	5-8%	6.9-8.9%
<u>Singapore</u>			
Marketplace sellers	Jan 24	4%	5.5%
ShopeeMall	Apr 24	6.5-8.5%	9-11%
<u>Thailand</u>			
Marketplace sellers	Apr 24	7-8%	8-9%
ShopeeMall	Apr 24	8-10%	8-11%
<u>Vietnam</u>			
Marketplace sellers	Jan 24	7%	8%
ShopeeMall	Sep 23	4.1-10.2%	5.1-11.2%

Source: SEA, UOB Kay Hian

## EARNINGS REVISION/RISK

- We have kept our forecasts unchanged.

## VALUATION/RECOMMENDATION

- **Maintain BUY with a 24% higher target price of US\$78.39 (US\$63.35 previously).** We raise our PS multiple for the e-commerce segment to 2.5x 2024F sales (at a narrower discount vs peers' 3.0x PS), up from 1.5x previously to reflect the improving industry landscape in the e-commerce space, as evidenced by the raising of commission fees and lowering of subsidies by SEA and its key competitor. Also, we now see a more upbeat outlook for 2024 on the back of growth from all segments. We expect Shopee to register improved performance in the more conducive landscape, as well as SeaMoney to successfully capture growth opportunities to serve the underbanked in Southeast Asia.

## 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
<b>Digital</b>					
<b>Entertainment</b>					
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)
<b>E-Commerce</b>					
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	1,108	PE	9.0	17.9
Entertainment (net profit)	8,364	PS	2.5	37.6
E-Commerce (sales)	638	PE	20	22.9
Digital Financial Services (net profit)				
<b>Total (rounding off)</b>				<b>78.4</b>

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
<b>Pre-tax profit</b>	<b>(1,489)</b>	<b>425</b>	<b>859</b>	<b>1,101</b>
Tax	(168)	(263)	(507)	(550)
Minorities	6	6	9	10
<b>Net profit</b>	<b>(1,651)</b>	<b>169</b>	<b>361</b>	<b>561</b>
Net profit (adj.)	(1,651)	169	361	561

### 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	7,610	4,311	9,551	11,972
Other current assets	5,095	7,553	5,824	6,077
<b>Total assets</b>	<b>17,003</b>	<b>18,973</b>	<b>22,502</b>	<b>25,207</b>
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
<b>Total liabilities &amp; equity</b>	<b>17,003</b>	<b>18,973</b>	<b>22,502</b>	<b>25,207</b>

### CASH FLOW

Year to 31 Dec (US\$m)	2022	2023	2024F	2025F
<b>Operating</b>	<b>(1,056)</b>	<b>935</b>	<b>4,855</b>	<b>1,765</b>
Pre-tax profit	(1,501)	432	859	1,101
Tax	(168)	(263)	(507)	(550)
Deprec. & amort.	428	0	351	355
Associates	11	(7)	0	0
Working capital changes	(1,370)	597	2,481	172
Non-cash items	855	175	1,672	687
Other operating cashflows	688	n.a.	n.a.	n.a.
<b>Investing</b>	<b>(2,429)</b>	<b>(4,692)</b>	<b>(364)</b>	<b>(371)</b>
Capex (growth)	(924)	0	(338)	(339)
Investments	(3,797)	(4,692)	0	0
Proceeds from sale of assets	2,401	0	0	0
Others	(108)	0	(25)	(32)
<b>Financing</b>	<b>400</b>	<b>458</b>	<b>816</b>	<b>1,028</b>
Dividend payments	0	0	0	1
Issue of shares	50	0	477	516
Proceeds from borrowings	(12)	178	(266)	0
Loan repayment	362	0	0	1
Others/interest paid	n.a.	281	605	510
<b>Net cash inflow (outflow)</b>	<b>(3,084)</b>	<b>(3,299)</b>	<b>5,307</b>	<b>2,421</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>10,838</b>	<b>7,610</b>	<b>4,244</b>	<b>9,551</b>
Changes due to forex impact	(144)	n.a.	n.a.	n.a.
<b>Ending cash &amp; cash equivalent</b>	<b>7,610</b>	<b>4,311</b>	<b>9,551</b>	<b>11,972</b>

### KEY METRICS

Year to 31 Dec (%)	2022	2023	2024F	2025F
<b>Profitability</b>				
EBITDA margin	(12)	2	7	8
Pre-tax margin	(12)	3	6	8
Net margin	(13)	1	3	4
ROA	n.a.	1	2	2
ROE	n.a.	3	5	6
<b>Growth</b>				
Turnover	25	5	1	8
EBITDA	n.a.	n.a.	285	40
Pre-tax profit	n.a.	n.a.	102	28
Net profit	n.a.	n.a.	113	55
Net profit (adj.)	n.a.	n.a.	113	55
EPS	n.a.	n.a.	93	50
<b>Leverage</b>				
Debt to total capital	37	32	32	27
Debt to equity	60	47	48	38
Net debt/(cash) to equity	(73)	(18)	(63)	(72)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.

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