

### COMPANY UPDATE

#### SEA (SE US)

4Q24 Results Preview: Growth Across All Segments, But Expect Some Forex Drag

We expect SEA to release its 4Q24 results in the first week of March. We estimate 4Q24 net profit at US\$200m-210m and full-year net profit at US\$407m-417m, which is 13-16% higher than our forecasts, but 15-17% lower than consensus estimates. Expect a better earnings profile from all business segments, driven by: a) a rise in take rates for Shopee, b) deeper user engagement for the gaming segment, and c) strong loanbook growth from the DFS segment. Maintain BUY. Target price: US\$138.70.

#### WHAT'S NEW

- 4Q24 results preview: Results should exceed our expectation.** SEA Limited (SEA) is likely to release its 4Q24 financial results in the first week of March. We are expecting 4Q24 net profit to be US\$200m-210m (vs 3Q24: US\$149m, 4Q23: -US\$91m). This will bring full-year net profit to US\$407m-417m, which is 13-16% higher than our forecasts but 15-17% lower than consensus expectations. 4Q is typically a stronger quarter qoq, with higher gross merchandise value (GMV) and digital entertainment bookings during the festive season.
- We expect to see growth across all segments,** with yoy performance slightly impacted by forex headwinds. Expectations for each segment are as follows:
  - Shopee expected to report healthy GMV and EBITDA growth.** We think that Shopee registered a strong 4Q as the competitive landscape is progressively rationalising. The platform has maintained market leadership, despite it and its peers continuing to increase take rates. More monetisation initiatives like increased advertising (ad) placements were also taken. We expect Shopee to achieve 25-26% yoy GMV growth for 2024.
  - Higher user engagement for Garena.** According to Sensor Tower, Free Fire was the second most downloaded mobile game globally in Oct 24 with 22.8m downloads. It then achieved the most downloads globally in Nov and Dec 24 (25m and 35.2m respectively), attributable to localised experiences that resonated with and engaged its wide user base. We believe 4Q24 bookings grew yoy but declined qoq, due to a strong 3Q24 with its special 7th anniversary event.
  - Strong loanbook growth.** We expect there to have been greater adoption of SeaMoney's product offerings, particularly its credit services in 4Q24. To recap, 3Q24 saw impressive loanbook growth of 73% yoy, while non-performing loans remained low at 1.2%. We expect healthy growth across all markets and product segments as it leverages on its synergy with Shopee.

#### KEY FINANCIALS

Year to 31 Dec (US\$m)	2022	2023	2024F	2025F	2026F
Net turnover	12,450	13,064	16,596	19,146	22,444
EBITDA	(1,488)	225	529	764	964
Operating profit	(1,488)	225	529	764	964
Net profit (rep./act.)	(1,651)	169	360	574	701
Net profit (adj.)	(1,651)	169	360	574	701
EPS (US\$ cent)	(295.9)	30.4	58.4	89.6	105.5
PE (x)	n.a.	388.0	201.9	131.5	111.7
P/B (x)	11.5	9.9	8.4	6.8	6.3
EV/EBITDA (x)	n.a.	284.8	120.9	83.7	66.4
Dividend yield (n.a.)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	(13.3)	1.3	2.2	3.0	3.1
Net debt/(cash) to equity (%)	(73.2)	(18.4)	(40.2)	(57.5)	(65.9)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.	n.a.
ROE (%)	(25.2)	2.7	4.7	5.8	6.0
Consensus net profit	-	-	492	1,381	2,088
UOBKH/Consensus (x)	-	-	0.73	0.42	0.34

Source: SEA, Bloomberg, UOB Kay Hian

### BUY

(Maintained)

Share Price	US\$117.79
Target Price	US\$138.70
Upside	+17.8%

#### 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):	526.8
Market cap (US\$m):	67,415.9
Market cap (US\$m):	67,415.9
3-mth avg daily t'over (US\$m):	399.5

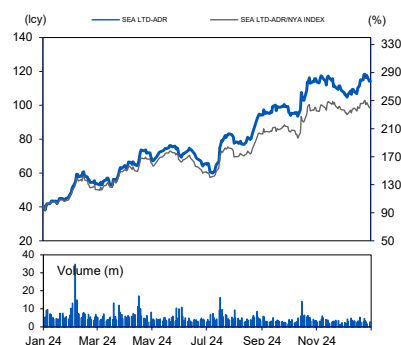
#### Price Performance (%)

52-week high/low	US\$119.47/US\$38.105			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
8.3	18.8	80.3	197.7	11.0

#### Major Shareholders

Forrest Li	25.2
Tencent	18.6
FY24 NAV/Share (US\$)	14.09
FY24 Net Cash/Share (US\$)	5.66

#### PRICE CHART



Source: Bloomberg

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### STOCK IMPACT

• **2025 is expected to be another year of growth**, with sustained investments under Shopee and new games and content under Garena:

**a) Shopee: Strengthening competitive moats.** We see further potential upside from commission take rate hikes, albeit at a more measured pace, as well as ad take rate hikes as the ad interface enhances efficiency upon the recent revamp. We also expect it to maintain investments in Brazil to grow market share, as well as in SPX Xpress, its logistics network, to widen its coverage across Asia and Brazil, improve customer experience and reduce cost efficiency.

**b) Digital entertainment: New content launched.** Free Fire has launched a collaboration with popular anime Naruto Shippuden that will run from 10 Jan to 9 Feb 25, which is expected to boost bookings. A new game, Garena Free City was also soft-launched in Argentina on 4 Dec 24 for Android users. The global release remains unconfirmed and poses potential upside risk.

### SHOPEE'S TAKE RATES IN SOUTHEAST ASIA

Country	Effective From	Prior Effective Take Rate	Current Effective Take Rate
<b>Indonesia</b>			
Marketplace sellers	Jan 25	4.3-8%	2.5-8%
ShopeeMall	Jan 25	4.1-10.1%	4.1-11.8%
<b>Malaysia</b>			
Marketplace sellers	Mar 24	2-6%	2-10%
ShopeeMall	Mar 24	4-11%	5-15%
<b>Philippines</b>			
Marketplace sellers	Apr 24	4%	6.5-7.8%
ShopeeMall	Jan 25	7.5-10.9%	7.5-11.9%
<b>Singapore</b>			
Marketplace sellers	Jan 24	4%	5.5%
ShopeeMall	Apr 24	6.5-8.5%	9-11%
<b>Thailand</b>			
Marketplace sellers	Jan 25	8-11%	8-12%
ShopeeMall	Apr 24	8-10%	8-11%
<b>Vietnam</b>			
Marketplace sellers	Jan 24	7%	8%
ShopeeMall	Sep 23	4.1-10.2%	5.1-11.2%
<b>Taiwan</b>			
Marketplace sellers	Jul 24	7.5-8.5%	7.5-9.5%
ShopeeMall	Feb 24	5.5-12.5%	5.5-13.5%
<b>Brazil</b>			
	Nov 24		14%+R\$4

Source: SEA, UOB Kay Hian

### EARNINGS REVISION/RISK

• **We maintain our earnings forecasts.**

### VALUATION/RECOMMENDATION

• **Maintain BUY with an unchanged target price of US\$138.70**, as we maintain a positive outlook on the stock for the expected steady earnings growth from all segments.

• Our valuation is based on the SOTP valuation method, where we peg the digital entertainment segment to 9.0x 2025F PE, which is at a discount to global peers due to its dependence on one game. We peg the e-commerce segment to 3.0x 2025F PS and the DFS segment to 20x 2025F PE.

### SHARE PRICE CATALYST

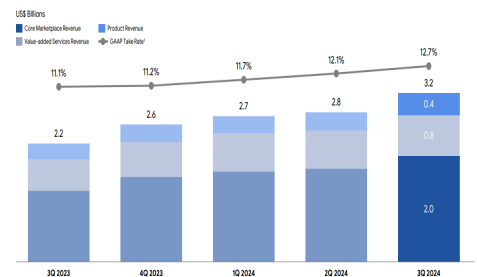
- New release of self-developed games.
- Higher-than-expected market share and margin in the operating countries.

### SOTP VALUATION SUMMARY (MAINTAINED)

	2025F net profit/ sales (US\$m)	Valuation Method	Valuation (x)	Fair Value (US\$)
Digital Entertainment	1,172 (net profit)	0.6x average peers PE	9.0	18.94
E-Commerce	14,014 (sales)	1 X average peers PS	3.0	85.57
Digital Financial Services	952 (net profit)	1 X average peers PE	20	34.19
<b>Total</b>				<b>138.70</b>

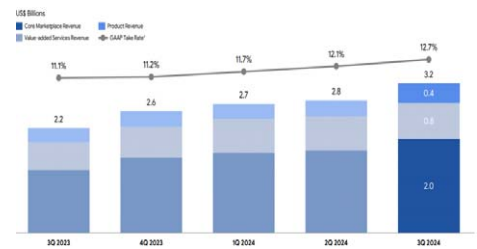
Source: UOB Kay Hian

### SHOPEE'S TAKE RATES AND REVENUE BREAKDOWN



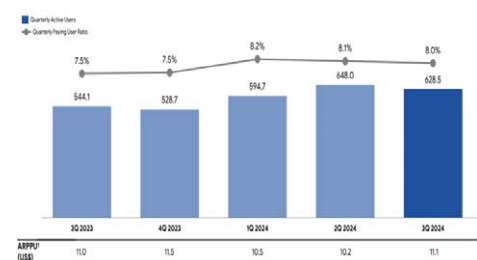
Source: SEA, UOB Kay Hian

### DFS' LOANBOOK AND NPL90+ RATIO



Source: SEA, UOB Kay Hian

### DIGITAL ENTERTAINMENTS QUARTERLY ACTIVE AND PAYING USERS



Source: SEA, UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (US\$m)	2023	2024F	2025F	2026F
Net turnover	13,063.6	16,595.9	19,146.0	22,444.4
EBITDA	224.8	529.5	764.4	964.2
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	224.8	529.5	764.4	964.2
Total other non-operating income	(82.6)	(125.7)	(125.7)	(125.7)
Associate contributions	(7.0)	0.0	0.0	0.0
Net interest income/(expense)	290.2	301.1	365.5	358.9
<b>Pre-tax profit</b>	<b>425.4</b>	<b>705.0</b>	<b>1,004.3</b>	<b>1,197.4</b>
Tax	(262.7)	(350.6)	(437.5)	(504.7)
Minorities	6.4	6.0	7.5	8.7
<b>Net profit</b>	<b>169.0</b>	<b>360.4</b>	<b>574.2</b>	<b>701.3</b>
Net profit (adj.)	169.0	360.4	574.2	701.3

### BALANCE SHEET

Year to 31 Dec (US\$m)	2023	2024F	2025F	2026F
Fixed assets	1,207.7	1,211.7	1,217.7	1,223.7
Other LT assets	5,901.6	7,486.2	7,758.1	8,109.0
Cash/ST investment	4,311.0	7,643.4	10,499.3	12,317.7
Other current assets	7,552.5	8,102.4	8,902.3	9,944.0
<b>Total assets</b>	<b>18,972.8</b>	<b>24,443.6</b>	<b>28,377.3</b>	<b>31,594.4</b>
ST debt	146.7	0.0	0.0	0.0
Other current liabilities	8,022.3	9,856.9	10,962.6	12,202.9
LT debt	2,949.8	4,148.0	4,148.0	4,148.0
Other LT liabilities	947.6	947.6	947.6	947.6
Shareholders' equity	6,593.8	8,700.7	11,048.2	12,404.3
Minority interest	103.8	97.7	90.2	81.5
<b>Total liabilities &amp; equity</b>	<b>18,972.8</b>	<b>24,443.6</b>	<b>28,377.3</b>	<b>31,594.4</b>

### CASH FLOW

Year to 31 Dec (US\$m)	2023	2024F	2025F	2026F
<b>Operating</b>	<b>934.7</b>	<b>2,947.6</b>	<b>2,199.4</b>	<b>2,150.7</b>
Pre-tax profit	432.4	705.0	1,004.3	1,197.4
Tax	(262.7)	(350.6)	(437.5)	(504.7)
Deprec. & amort.	0.0	350.9	355.2	361.1
Associates	(7.0)	0.0	0.0	0.0
Working capital changes	597.0	499.9	531.9	491.0
Non-cash items	175.0	1,742.5	745.7	606.0
Other operating cashflows	0.0	0.0	0.0	0.0
<b>Investing</b>	<b>(4,692.4)</b>	<b>(363.6)</b>	<b>(371.0)</b>	<b>(381.2)</b>
Capex (growth)	0.0	(338.2)	(339.3)	(341.0)
Investment	(4,692.4)	0.0	0.0	0.0
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	0.0	(25.4)	(31.8)	(40.2)
<b>Financing</b>	<b>458.3</b>	<b>815.6</b>	<b>1,027.5</b>	<b>48.8</b>
Dividend payments	0.0	0.0	1.0	1.0
Proceeds from borrowings	177.6	(266.0)	0.0	0.0
Loan repayment	(0.0)	0.0	1.0	1.0
Others/interest paid	280.7	1,081.6	1,025.5	46.8
<b>Net cash inflow (outflow)</b>	<b>(3,299.4)</b>	<b>3,399.7</b>	<b>2,855.9</b>	<b>1,818.4</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>7,610.4</b>	<b>4,243.7</b>	<b>7,643.4</b>	<b>10,499.3</b>
Changes due to forex impact	0.0	0.0	0.0	0.0
<b>Ending cash &amp; cash equivalent</b>	<b>4,311.0</b>	<b>7,643.4</b>	<b>10,499.3</b>	<b>12,317.7</b>

### KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
<b>Profitability</b>				
EBITDA margin	1.7	3.2	4.0	4.3
Pre-tax margin	3.3	4.2	5.2	5.3
Net margin	1.3	2.2	3.0	3.1
ROA	0.9	1.7	2.2	2.3
ROE	2.7	4.7	5.8	6.0
<b>Growth</b>				
Turnover	4.9	27.0	15.4	17.2
EBITDA	n.a.	135.6	44.4	26.1
Pre-tax profit	n.a.	65.7	42.5	19.2
Net profit	n.a.	113.2	59.3	22.1
Net profit (adj.)	n.a.	113.2	59.3	22.1
EPS	n.a.	92.2	53.5	17.7
<b>Leverage</b>				
Debt to total capital	31.6	32.0	27.1	24.9
Debt to equity	47.0	47.7	37.5	33.4
Net debt/(cash) to equity	(18.4)	(40.2)	(57.5)	(65.9)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.

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