



Sea Ltd.

Cost-cutting measures boost path to profitability

17 November 2022

UNITED STATES | INTERNET | 3Q22 RESULTS

- 3Q22 revenue beat expectations by 7%; net loss was a beat by 35% on employee expense cuts and more prudent spending on sales & marketing. 9M22 revenue was at 69% our FY22e forecasts. Net loss was at 73% of our FY22e forecasts.
- Improving monetization is driving Shopee growth, with a 1.5% YoY increase in take rate. Operating losses in SeaMoney were cut by half due to 33% YoY reduction in sales & marketing expenses.
- Weakness in gaming continues to weigh on Garena; revenue was down 19% YoY due to reduced user engagement and monetization.
- We maintain a BUY recommendation with an unchanged DCF target price of US\$110.00, with a WACC of 7.6%, and a terminal growth rate of 3.0%.

BUY (Maintained)

CLOSING PRICE	USD 58.76
FORECAST DIV	USD 0.00
TARGET PRICE	USD 110.00
TOTAL RETURN	87.2%

COMPANY DATA

Bloomberg CODE:	SE US
O/S SHARES (MN):	562
MARKET CAP (SGD bn / USD bn):	45 / 33
52 - WK HI/LO (USD):	355.99 / 40.67
3M Average Daily T/O (mn):	7.12

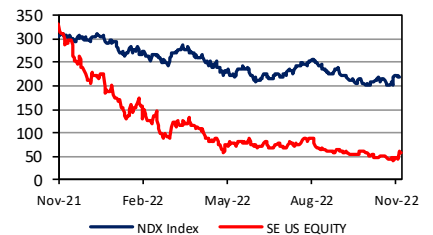
MAJOR SHAREHOLDERS (CLASS A SHARES)

Gang Ye	5.8%
T Rowe Price Group Inc	5.5%
Sands Capital Management LLC	4.0%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	15.1	(24.1)	(73.7)
NASDAQ RETURN	9.4	(14.2)	(28.3)

PRICE VS. NASDAQ



Source: Bloomberg, PSR

Results at a glance

USD (bn)	3Q22	3Q21	YoY	2Q22	QoQ	Comments YoY%
Revenue	3.2	2.7	17.4%	2.9	7.3%	
- Digital Entertainment	0.9	1.1	-18.8%	0.9	-0.8%	Quarterly Paying Users down 45% YoY
- E-commerce	1.9	1.5	32.4%	1.7	9.8%	Gross orders up 19% YoY, GMV up 14% YoY
- Digital Financial Services	0.3	0.1	147.2%	0.3	17.2%	
Gross Profit	1.2	1.0	21.7%	1.1	12.6%	38.9% Gross Profit margin, up 1.4% YoY
OPEX	-1.7	-1.5	17.5%	-1.9	-10.6%	In line with revenue growth
- Sales & Marketing	-0.8	-1.0	-19.1%	-1.0	-16.1%	
Operating Loss	-0.5	-0.5	8.1%	-0.8	-40.8%	
Net Loss	-0.6	-0.6	-0.3%	-0.9	-38.9%	Led by cost cutting focus and improving unit economics
Adj. Net Loss	-0.4	-0.4	-16.6%	-0.6	-34.4%	Excl. share-based compensation
Adj. EPS (\$)	-0.7	-0.8	-21.4%	-1.0	-35.9%	Excl. share-based compensation

Source: Company, PSR

The Positive

+ 3Q22 revenue and earnings beat expectations on robust Shopee growth and cost cutting initiatives. SE's 3Q22 revenue of US\$3.2bn beat estimates by about 7%, driven by a 32% YoY growth in Shopee due to increasing monetization, and a 147% YoY growth in SeaMoney led by an expansion in its credit business. Adj. EPS (excluding share-based compensation) of -US\$0.66 beat estimates by about 35%, due to: 1) 3Q22 revenue beat; and 2) sequential decline in expense growth as a result of more prudent as it prioritises self-sufficiency and profitability as soon as possible.

+ Improving monetization driving Shopee revenue growth. Shopee continued to drive overall revenue growth, posting US\$1.9bn for 3Q22, a 32% YoY increase (39% YoY in constant currency). This was led by a 14%/19% YoY growth in GMV and gross orders – showing resilience through an uncertain macroeconomic period, and about a 1.5% YoY improvement in take rate. The operating loss for Shopee also improved 21% YoY to -US\$0.6bn, driven by improving operating efficiencies and a 16% YoY reduction in sales and marketing spend.

+ SeaMoney reducing losses, expanding loan book. SE's digital financial services business, SeaMoney, continued to show improvements in cost efficiency as a result of more focused spending – sales & marketing expense down 33% YoY. Operating losses for the segment was cut by about 50% YoY, posting a US\$82mn loss for 3Q22. Revenue growth of 147% YoY was driven by a healthy credit business of US\$2.2bn on its loan book.

The Negative

- Weakness in gaming continuing to weigh on Garena. A weak macroeconomic environment, coupled with reopening trends, continue to be headwinds for SE's digital entertainment business. Garena's 3Q22 revenue was down 19% YoY as a result of declining user engagement and monetization. SE also revised its FY22e bookings guidance to a range of US\$2.6bn-US\$2.8bn, representing an almost 40% expected QoQ drop in bookings for 4Q22.

KEY FINANCIALS

Y/E Dec, USD (bn)	FY20	FY21	FY22e	FY23e
Revenue	4.4	10.0	13.0	18.3
EBITDA	-1.2	-1.3	-1.9	-0.5
Net Profit	-1.6	-2.0	-2.9	-1.7
P/S (X)	23.3	12.6	2.5	2.1
P/B (X)	29.8	16.9	3.6	2.7
EV/Revenue (X)	22.3	12.1	2.2	1.6
Gearing Ratio	54%	48%	50%	44%

Source: Company, PSR

VALUATION METHOD

Discounted Cash-Flow, WACC 7.6%, g 3.0%

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Gross Merchandise Value (GMV): total value of merchandise sold over a given period on Shopee.

Bookings: amount of products/services sold on Garena, calculated by adding change in deferred revenue to GAAP revenue.

Outlook

Garena: Garena continues to see a decline in user engagement and monetization, with Quarterly Active Users down 22% YoY, and Quarterly Paying Users down 45% YoY. Management pointed to a weaker macro environment, reopening trends continuing, and children going back to school in 3Q22, as the main reasons for the weakness. Also, FY22e booking guidance was reduced from a range of US\$2.9bn-US\$3.1bn, to a range of US\$2.6bn-US\$2.8bn, representing an almost 40% QoQ decline for the upcoming 4Q22e.

Garena revenue contracting YoY due to decline in user engagement and monetisation.

Shopee: Revenue growth from Shopee continues to be resilient, supported by 19%/14% YoY growth in gross orders/GMV – GMV was up 21% YoY in constant currency. Most importantly, monetization of Shopee increased, with the take rate increasing about 1.5% YoY as the company continued to deliver increasing value to its customers. Profitability continued to improve across Asian markets, with adjusted EBITDA improving 31% QoQ, and Malaysia and Taiwan recording positive adjusted EBITDA for 3Q22. Brand loyalty amongst sellers who use Shopee continue to improve, with over 42,000 brands on Shopee Mall, a 36% YoY increase. Shopee continues to see resilient growth in many of the emerging markets in which it operates in, although we do expect to see continued challenges in the near term due to FX and an uncertain macroeconomic environment.

Shopee saw growth in GMV, gross orders, and increased its take rate by 1.5% YoY.

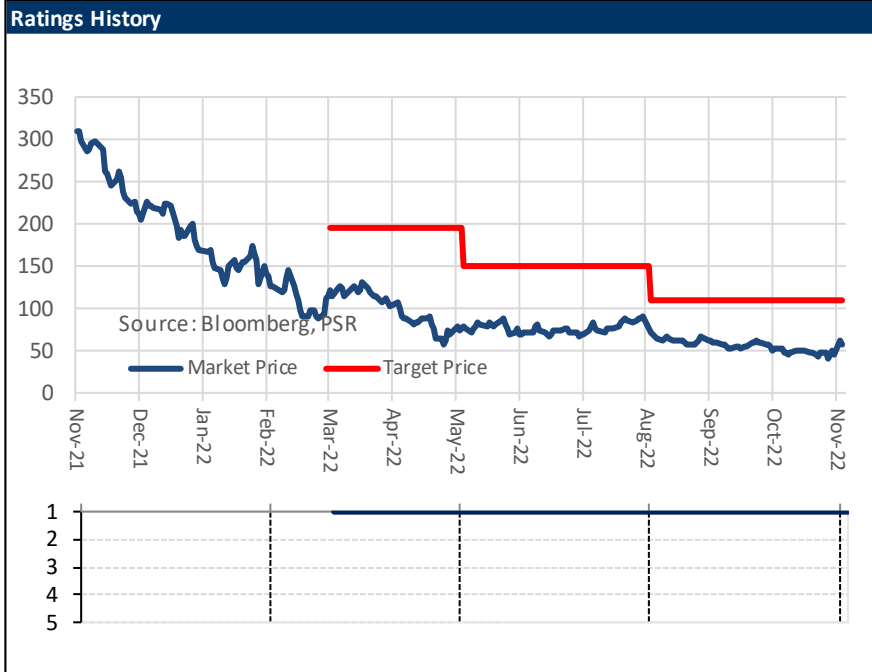
SeaMoney: Revenue from SeaMoney was up 147% YoY, down sequentially from 2Q22, with operating loss narrowing ~50% YoY. The improvement was driven by more prudent spending, and a focus on maintaining profitability in its credit business. SE's loan book stood at US\$2.2bn in 3Q22, an increase of about US\$700mn YTD, with non-performing loans >90 days standing at less than 4%.

SeaMoney continuing to leverage on a healthy loan book to drive revenue.

Overall, the shift in focus to more prudent investment spending, coupled with cost-cutting initiatives like reducing employee costs across all business segments should accelerate SE's path to profitability for its e-commerce and digital financial services segments, which we do think is important given the gradual decline in profit contribution from Garena.

Maintain BUY with an unchanged target price of US\$110.00

We maintain a BUY rating with an unchanged target price of US\$110.00, with a WACC of 7.6%, and a terminal growth rate of 3.0%.



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

Financials

Income Statement

Y/E Dec, USD mn	FY19	FY20	FY21	FY22e	FY23e
Revenue	2,175	4,376	9,955	13,036	18,314
Gross Profit	605	1,349	3,896	4,954	7,326
Other Income	(16)	(190)	(288)	(261)	(366)
EBITDA	(1,233)	(1,179)	(1,333)	(1,885)	(543)
Depreciation & Amortization	(122)	(181)	(279)	(396)	(555)
EBIT	(1,354)	(1,360)	(1,612)	(2,281)	(1,099)
Profit before tax	(1,369)	(1,483)	(1,715)	(2,486)	(1,297)
Taxation	(86)	(142)	(333)	(373)	(415)
PATMI	(1,463)	(1,618)	(2,047)	(2,858)	(1,712)

Per share data (USD)

Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
Diluted EPS	(3.16)	(3.16)	(3.64)	(4.72)	(2.64)
BVPS	2.53	6.68	13.22	16.32	21.70

Cash Flow

Y/E Dec, USD mn	FY19	FY20	FY21	FY22e	FY23e
CFO					
Profit after tax	(1,463)	(1,618)	(2,047)	(2,858)	(1,712)
Cash Flow from Operations	70	556	209	(1,131)	756
CFI					
CAPEX, net	(240)	(336)	(772)	(1,173)	(1,648)
Cash Flow from Investing	(363)	(887)	(3,767)	(3,094)	(3,569)
CFE					
Cash Flow from Financing	2,580	3,733	7,402	5,782	5,782
Net Change in Cash	2,311	3,483	3,785	1,557	2,970
CCE, end	3,119	6,167	9,248	11,131	14,101

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec, USD mn	FY19	FY20	FY21	FY22e	FY23e
ASSETS					
Cash & Cash Equivalents	3,119	6,167	9,248	11,131	14,101
Prepaid Expenses	535	1,054	1,402	1,929	2,456
Receivables	187	363	388	877	1,564
Others	569	1,069	2,597	2,307	2,418
Total current assets	4,410	8,939	15,135	19,446	25,440
PPE & IA	334	426	1,082	1,880	2,994
Long-term Investments	114	190	1,053	1,133	1,213
Goodwill	31	216	540	540	540
Others	336	684	946	993	1,039
Total non-current assets	814	1,517	3,621	4,546	5,786
Total Assets	5,224	10,456	18,756	23,992	31,226

LIABILITIES

Accruals	981	2,033	3,531	4,029	4,527
Deferred Revenue	1,098	2,150	2,644	3,291	4,200
Others	284	452	1,001	1,221	1,596
Total current liabilities	2,362	4,636	7,176	8,541	10,324
Convertible notes	1,357	1,840	3,476	4,895	6,149
Others	332	559	679	679	679
Total non-current liabilities	1,689	2,399	4,155	5,575	6,828
Total liabilities	4,051	7,035	11,332	14,116	17,152

Equity

Share Capital & APIC	4,688	8,527	14,623	19,734	25,450
Shareholder Equity	1,173	3,420	7,424	9,876	14,074

Valuation Ratios

Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
P/S (X)	8.6	23.3	12.6	2.7	2.2
P/B (X)	15.9	29.8	16.9	3.8	2.9
EV/EBITDA (X)	nm	nm	nm	nm	nm

Growth & Margins

Growth					
Revenue	163.0%	101.2%	127.5%	31.0%	40.5%
EBITDA	44.1%	-4.4%	13.1%	41.4%	-71.2%
EBIT	45.0%	0.4%	18.6%	41.5%	-51.8%
Net profit, adj.	52.2%	10.6%	26.5%	39.6%	-40.1%
Margins					
Gross margin	27.8%	30.8%	39.1%	38.0%	40.0%
EBITDA margin	nm	nm	nm	nm	nm
EBIT margin	nm	nm	nm	nm	nm
Net profit margin	nm	nm	nm	nm	nm

Key Ratios

ROE	nm	nm	nm	nm	nm
ROA	nm	nm	nm	nm	nm
Net Gearing	nm	nm	nm	nm	nm
Net Debt/EBITDA (X)	nm	nm	nm	nm	nm

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