

Sea Ltd.

More E-Commerce Growth Ahead



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UNITED STATES | INTERNET | 4Q23 RESULTS

11 March 2024

- Both 4Q23 revenue and PATMI were in line with expectations. FY23 revenue was at 98% of our FY23e forecasts, while PATMI was ~US\$0.7bn below. Sea has hit its first profitable year since its IPO in 2017.
- Shopee is gaining market share against its competitors, with both GMV and gross orders growing strong (29%/46% YoY), driven by increased investments in the business since 3Q23. Garena is guided to increase by double digits after two years of decline.
- We raised our FY24 revenue growth rate/PATMI by 2%/0.28bn driven by higher e-commerce and gaming growth. We expect FY24 to be profitable given profitability contribution from Garena and Shopee. We roll over an additional year of valuations and downgraded our recommendation from Buy to Accumulate due to a recent share price change. Our DCF target price is raised to US\$70 (prev. US\$61), with an unchanged WACC/growth rate of 7.6%/3%.

Results at a glance

USD (bn)	4Q23	4Q22	YoY	3Q23	QoQ	Comments
Revenue	3.6	3.5	4.8%	3.3	9.3%	
- Digital Entertainment	0.5	0.9	-46.2%	0.6	-13.7%	Free Fire >100 mn peak daily active users
- E-commerce	2.6	2.1	23.4%	2.2	16.1%	Gross Orders +46% YoY, GMV +29% YoY
- Digital Financial Services	0.5	0.4	24.3%	0.4	5.9%	Loans grew by 27% YoY to US\$3.1bn
Gross Profit	1.5	1.7	-10.2%	1.4	5.8%	
OPEX	-1.6	-1.4	16.7%	-1.6	0.8%	
- Sales & Marketing	-1.0	-0.5	104.3%	-0.9	5.4%	50% YoY surge in e-commerce spend
Operating Income	-0.6	0.3	nm	-0.1	nm	
PATMI	-0.1	0.4	nm	-0.1	nm	
EPS (\$)	-0.19	0.72	nm	-0.26	nm	

Source: Company, PSR

The Positive

+ Investments in Shopee are paying off; gaining market share. Shopee's strategic pivot to reinvigorate its topline growth through ramped up investment to competed aggressively for market share since July last year has paid off, helping Shopee gain more market share: there was a renewed surge in its GMV and gross orders (29%/46% YoY). Revenue grew 23% YoY in 4Q23. Shopee focuses on the expansion of last-mile delivery facilities and optimising routing, which cuts costs and improves delivery speed. Both market gain and improved logistics signal long-term growth for Shopee.

+ Shopee expected to see high-teens GMV growth in FY24e. Shopee has guided high-teens GMV growth YoY in FY24e as its investment in gaining market share starts to bear fruit. Its new initiative live-streaming e-commerce business continues to gain traction due to its leadership position and economics of scale. It now accounts for 15% of order volume by the end of FY23. SE claims to be making adjustments in take-rates, especially in ads, which has a sizable room to grow compared to global peers. SE has disclosed their confidence of returning Shopee to positive EBITDA in 2H24 even as competition picks up.

+ Gaming guidance is a pleasant surprise. Despite gaming continuing to show a 52% YoY revenue decline, SE has surprisingly guided a positive outlook for Free Fire. Both user base and bookings of SE's largest and most profitable game are expected to increase by double digits in FY2024, indicating a rebound in gaming earnings after two years of decline.

The Negatives

- Nil.

ACCUMULATE (Downgraded)

CLOSING PRICE	USD 59.22
FORECAST DIV	USD 0.00
TARGET PRICE	USD 70.00
TOTAL RETURN	18.2%

COMPANY DATA

Bloomberg CODE:	SE US
O/S SHARES (MN):	567
MARKET CAP (SGD bn / USD bn):	45 / 34
52 - WK HI/LO (USD):	88.84 / 34.35
3M Average Daily T/O (mn):	8.28

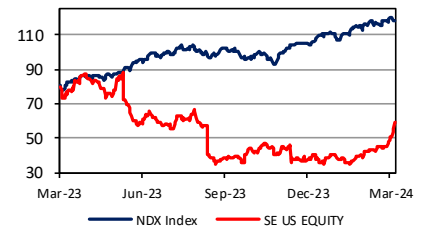
MAJOR SHAREHOLDERS (CLASS A SHARES)

Baillie Gifford & Co	6.6%
FMR LLC	5.3%
BlackRock Inc	3.1%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	35.8	51.7	46.2
NASDAQ RETURN	1.5	12.5	7.1

PRICE VS. NASDAQ



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec, USD (bn)	FY21	FY22	FY23e	FY24e
Revenue	10.0	12.4	13.1	14.9
EBITDA	-1.3	-1.1	0.6	1.1
Net Profit	-2.0	-1.7	0.2	0.6
P/S (X)	12.5	2.3	1.8	1.6
P/E (X)	nm	nm	159.7	38.8
EV/EBITDA (X)	nm	nm	41.8	22.9
ROE (%)	nm	nm	2%	7%

Source: Company, PSR

VALUATION METHOD

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

Helena Wang (+65 6212 1852)

Research Analyst

helenawang@phillip.com.sg

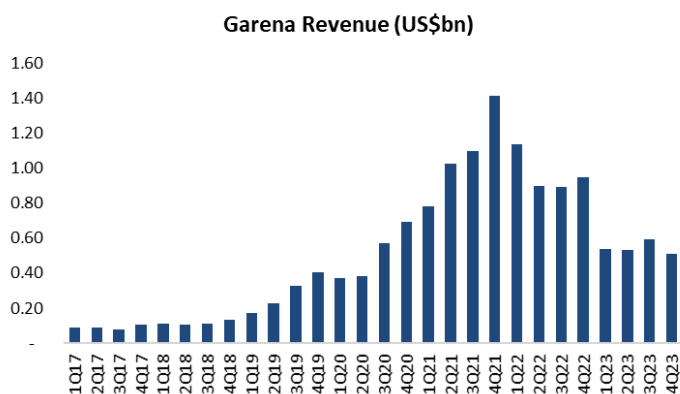
Outlook

Garena: Garena has been seeing constant decline for the past two years (figure 1). Revenue in 4Q23 declined 52% YoY despite strong seasonality. SE’s strong guidance came as a pleasant surprise as strong momentum of Free Fire has been observed by the company. SE has guided both user base and bookings of Free Fire to grow by double digits in FY24e. Free Fire was the most downloaded mobile game globally in 2023 with more than 100 million peak daily active users in Feb 2024. The guidance is indicative that the decline in gaming revenue has bottomed out.

Shopee: Shopee’s growth is re-accelerating (figure 2). For 4Q23, both GMV and gross orders exhibited strong growth, with GMV improving 29% YoY, while gross orders increased 46% YoY, benefitting from its strategic pivot to reinvigorate its topline growth through heavy investment in sales & marketing. Shopee’s core marketplace revenue (+41% YoY) as both live streaming and logistics services ramp up. SE has guided high-teens GMV growth in FY24e and positive EBITDA in 2H24. SE mentioned that it will carefully balance not overspending and protecting its market share. We expect positive revisions in Shopee’s earnings expectations, especially as they try to adjust to higher take rates.

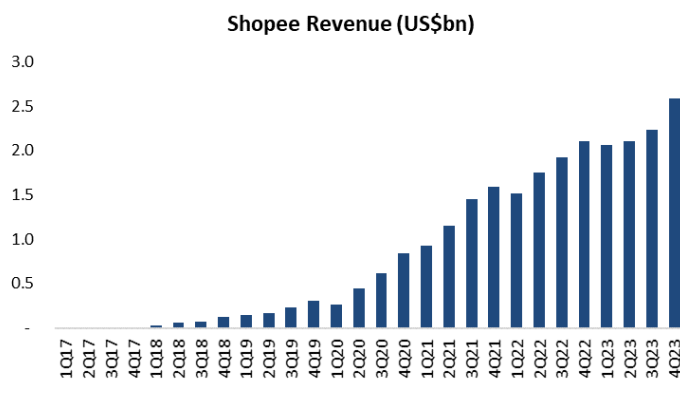
SeaMoney: Growth continues in SeaMoney, with its Q4 revenue of US\$472 mn, up by 24% YoY. SeaMoney posted its first-ever year of positive adjusted earnings at US\$550 mn for 2023. SE sees a significant upside in its markets in the financial services space and intends to continue investing in user acquisition both on and off the Shopee platform while remaining prudent in risk management. SE has guided similar steady growth rate in FY24.

Figure 1: Garena’s revenue has been declining since 1Q22



Source: Company, PSR

Figure 2: Shopee revenue increasing QoQ reaccelerating



Source: Company, PSR

RULE OF 40

The “Rule of 40” was first introduced as a benchmark to measure the balance between the growth and profitability of SaaS companies, taking into account both revenue growth as well as profitability (Revenue Growth + EBITDA Margins), with the addition of both metrics needing to exceed the 40% threshold. We have modified this slightly by averaging revenue growth over three years compared to a single-period growth rate. Adding together SE’s 3-year average revenue growth of 44% and its EBITDA margin of 5%, the total of 49% is more than our required threshold of 40% (Figure 3).

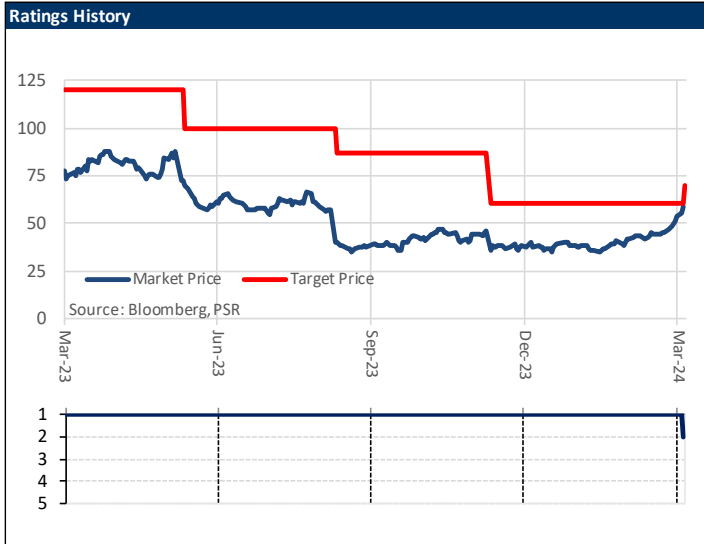
Figure 3: Rule of 40 calculation meets the 40% threshold

Rule of 40				
3 Year Average Revenue Growth	+	EBITDA Margin	=	Total
44%		5%		49%

Source: Company, PSR

Downgrade from Buy to Accumulate with a raised target price of US\$70.00

We raised our FY24 revenue growth rate/PATMI by 2%/280mn driven by e-commerce and gaming. We rolled over an additional year of valuations and downgraded our recommendation from Buy to Accumulate due to a recent share price change. Our DCF target price is raised to US\$70 (prev. US\$61), with an unchanged WACC/growth rate of 7.6%/3%.



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	FY22	FY22	FY23	FY24e	FY25e
Revenue	9,955	12,450	13,064	14,854	16,956
Gross Profit	3,896	5,185	5,834	6,907	7,885
Other Income	(288)	(279)	(221)	(251)	(287)
EBITDA	(1,333)	(1,114)	583	1,111	1,285
Depreciation & Amortization	(279)	(456)	(441)	(532)	(607)
EBIT	(1,612)	(1,571)	142	579	678
Profit before tax	(1,715)	(1,501)	432	1,010	1,252
Taxation	(333)	(168)	(263)	(384)	(476)
PATMI	(2,047)	(1,651)	151	627	777

Per share data (USD)

Y/E Dec	FY22	FY22	FY23	FY24e	FY25e
Diluted EPS	(3.67)	(2.92)	0.25	1.04	1.28
BVPS	13.31	10.29	11.27	14.49	17.15

Cash Flow

Y/E Dec, USD mn	FY22	FY22	FY23	FY24e	FY25e
CFO					
Profit after tax	(2,047)	(1,651)	151	627	777
Cash Flow from Operations	209	(1,056)	2,080	1,365	1,784
CFI					
CAPEX, net	(772)	(924)	(242)	(921)	(1,051)
Cash Flow from Investing	(3,767)	(2,429)	(5,804)	(2,142)	(2,272)
CFE					
Cash Flow from Financing	7,402	400	366	1,114	1,114
Net Change in Cash	3,785	(3,228)	(3,367)	337	626
CCE, end	9,248	6,030	1,231	1,549	2,175

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec, USD mn	FY22	FY22	FY23	FY24e	FY25e
ASSETS					
Cash & Cash Equivalents	9,248	6,030	2,812	1,549	2,175
Prepaid Expenses	1,402	1,799	1,862	2,389	2,916
Receivables	388	269	263	411	581
Others	2,597	2,537	4,374	4,410	4,451
Total current assets	15,135	12,688	11,774	12,224	14,588
PPE & IA	1,082	1,453	1,259	1,776	2,241
Long-term Investments	1,053	1,254	4,263	4,343	4,423
Goodwill	540	230	113	113	113
Others	946	1,378	1,475	1,540	1,586
Total non-current assets	3,621	4,315	7,109	7,771	8,362
Total Assets	18,756	17,003	18,884	19,995	22,950
LIABILITIES					
Accruals	3,531	4,575	5,741	5,741	5,741
Deferred Revenue	2,644	1,535	1,209	1,655	2,163
Others	1,001	825	1,219	1,146	1,392
Total current liabilities	7,176	6,936	8,169	8,541	9,296
Convertible notes	3,476	3,339	2,950	2,590	2,504
Others	679	918	1,067	1,067	1,067
Total non-current liabilities	4,155	4,256	4,017	3,656	3,571
Total liabilities	11,332	11,192	12,186	12,197	12,867
Equity					
Share Capital & APIC	14,623	14,560	15,284	16,126	17,088
Shareholder Equity	7,424	5,811	6,697	8,715	10,437

Valuation Ratios

Y/E Dec	FY22	FY22	FY23	FY24e	FY25e
P/S (X)	12.5	2.3	1.8	1.6	1.5
P/E (X)	nm	nm	159.7	38.8	31.7
EV/EBITDA (X)	nm	nm	41.8	22.9	19.4

Growth & Margins

	FY22	FY22	FY23	FY24e	FY25e
Growth					
Revenue	127.5%	25.1%	4.9%	13.7%	14.2%
EBITDA	13.1%	-16.4%	nm	90.5%	15.7%
EBIT	18.6%	-2.6%	nm	307.3%	17.0%
Net profit, adj.	26.5%	-19.3%	nm	316.0%	23.9%
Margins					
Gross margin	39.1%	41.6%	44.7%	46.5%	46.5%
EBITDA margin	nm	nm	4.5%	7.5%	7.6%
EBIT margin	nm	nm	1.1%	3.9%	4.0%
Net profit margin	nm	nm	1.2%	4.2%	4.6%
Key Ratios					
ROE	nm	nm	2.3%	7.2%	7.4%
ROA	nm	nm	0.8%	3.1%	3.4%
Net Gearing	nm	nm	nm	5.0%	10.0%
Net Debt/EBITDA (X)	nm	nm	nm	nm	nm

Head of Research

 Paul Chew – paulchewkl@phillip.com.sg
Technical Analyst

 Zane Aw – zaneawyx@phillip.com.sg
Credit Analyst

 Shawn Sng – shawnsngkh@phillip.com.sg
US Tech Analyst (Software/Services)

 Ambrish Shah – amshah@phillipventuresifsc.in
Contact Information (Singapore Research Team)
Research Admin

 Qystina Azli - qystina@phillip.com.sg
Property | REITs

 Darren Chan – darrenchanrx@phillip.com.sg
Property | REITs

 Liu Miaomiao – liumm@phillip.com.sg
US Tech Analyst (Digital Entertainment/Semicons)

 Jonathan Woo – jonathanoockj@phillip.com.sg
Banking & Finance

 Glenn Thum – glennthumjc@phillip.com.sg
Conglomerate | Transport

 Peggy Mak – peggymak@phillip.com.sg
US Tech Analyst (Hardware/E-commerce/ETF)

 Helena Wang – helenawang@phillip.com.sg
Contact Information (Regional Member Companies)
SINGAPORE

Phillip Securities Pte Ltd
Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel +65 6533 6001
Fax +65 6535 6631
Website: www.poe.ms.com.sg

JAPAN

Phillip Securities Japan, Ltd.
4-2 Nihonbashi Kabuto-cho Chuo-ku,
Tokyo 103-0026
Tel +81-3 3666 2101
Fax +81-3 3666 6090
Website: www.phillip.co.jp

THAILAND

Phillip Securities (Thailand) Public Co. Ltd
15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel +66-2 6351700 / 22680999
Fax +66-2 22680921
Website www.phillip.co.th

UNITED STATES

Phillip Capital Inc
141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1-312 356 9000
Fax +1-312 356 9005
Website: www.phillipusa.com

INDIA

PhillipCapital (India) Private Limited
No.1, 18th Floor, Urmi Estate
95, Ganpatrao Kadam Marg
Lower Parel West, Mumbai 400-013
Maharashtra, India
Tel: +91-22-2300 2999 / Fax: +91-22-2300 2969
Website: www.phillipcapital.in

MALAYSIA

Phillip Capital Management Sdn Bhd
B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel +603 2162 8841
Fax +603 2166 5099
Website: www.poe.ms.com.my

INDONESIA

PT Phillip Securities Indonesia
ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel +62-21 5790 0800
Fax +62-21 5790 0809
Website: www.phillip.co.id

FRANCE

King & Shaxson Capital Limited
3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel +33-1 45633100
Fax +33-1 45636017
Website: www.kingandshaxson.com

AUSTRALIA

Phillip Capital Limited
Level 10, 330 Collins Street
Melbourne, Victoria 3000, Australia
Tel +61-03 8633 9803
Fax +61-03 8633 9899
Website: www.phillipcapital.com.au

TURKEY

PhillipCapital Menkul Degerler
Dr. Cemil Bengü Cad. Hak Is Merkezi
No. 2 Kat. 6A Caglayan
34403 Istanbul, Turkey
Tel: 0212 296 84 84
Fax: 0212 233 69 29
Website: www.phillipcapital.com.tr

HONG KONG

Phillip Securities (HK) Ltd
11/F United Centre 95 Queensway
Hong Kong
Tel +852 2277 6600
Fax +852 2868 5307
Websites: www.phillip.com.hk

CHINA

Phillip Financial Advisory (Shanghai) Co Ltd
No 550 Yan An East Road,
Ocean Tower Unit 2318,
Postal code 200001
Tel +86-21 5169 9200
Fax +86-21 6351 2940
Website: www.phillip.com.cn

UNITED KINGDOM

King & Shaxson Capital Limited
6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel +44-20 7426 5950
Fax +44-20 7626 1757
Website: www.kingandshaxson.com

CAMBODIA

Phillip Bank Plc
Ground Floor of B-Office Centre, #61-64,
Norodom Blvd Corner Street 306, Sangkat
Boeung Keng Kang 1, Khan Chamkamorn,
Phnom Penh, Cambodia
Tel: 855 (0) 7796 6151/855 (0) 1620 0769
Website: www.phillipbank.com.kh

DUBAI

Phillip Futures DMCC
Member of the Dubai Gold and
Commodities Exchange (DGCX)
Unit No 601, Plot No 58, White Crown Bldg,
Sheikh Zayed Road, P.O.Box 212291
Dubai-UAE
Tel: +971-4-3325052 / Fax: + 971-4-3328895

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