

Sea Ltd.

Outperformance likely to continue, but valuations stretched



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UNITED STATES | INTERNET | 1Q25 RESULTS

23 May 2025

- 1Q25 revenue/PATMI were in line with expectations, with its 30% YoY growth primarily driven by strength in Shopee (29% YoY) and Monee (58% YoY). 1Q25 revenue/PATMI was at 23%/25% of our FY25 estimates.
- All three segments —Shopee, Monee, and Garena —maintained their strong momentum, fueled by higher take rates in commissions and ads, robust loan book growth, and strong bookings.
- We downgrade our recommendation from Accumulate to Neutral due to the recent share price rally. We raised our FY25 revenue/PATMI by 2%/13% to reflect growth in Monee, Garena, and continued improvements in cost efficiency. We also raise our terminal growth rate assumption to 4.5% (previously 4%), reflecting the long-term growth potential of Monee as it penetrates the large unbanked population in Southeast Asia. We have raised our DCF target price to US\$160 (previously US\$140), with an unchanged WACC of 7.6%. After the significant price rally, we see minimal upside.

Results at a glance

USD (bn)	1Q25	1Q24	YoY	4Q24	QoQ	Comments
Revenue	4.8	3.7	29.6%	5.0	-2.2%	
- Digital Entertainment	0.5	0.5	8.2%	0.5	-4.5%	Bookings +51% YoY, QAU/QPU + 11%/32% YoY
- E-commerce	3.1	2.4	28.7%	3.7	-14.8%	Gross Orders +21% YoY, GMV +22% YoY, increase in ad uptake and commission rates
- Digital Financial Services	0.8	0.5	57.6%	0.7	7.3%	Loans principle + 77% YoY to \$US5.8bn
Gross Profit	2.2	1.6	43.9%	2.2	1.4%	
OPEX	-1.8	-1.5	20.0%	-1.9	-6.3%	
- Sales & Marketing	-0.9	-0.8	20.8%	-1.0	-11.4%	
Operating Income	0.5	0.1	nm	0.3	49.3%	
PATMI	0.4	0.0	nm	0.2	73.1%	
EPS (\$)	0.65	-0.04	nm	0.39	66.7%	

Source: Company, PSR

Positives

+ Shopee's strong growth continues. Shopee sustained its strong momentum with a 29% YoY increase in revenue and a 22% YoY growth in GMV, supported by favorable seasonality (with Ramadan falling entirely in Q1) and a 50bps YoY improvement in take rate. The platform has turned profitable, reversing last year's losses (1Q25:US\$0.4bn vs 1Q24:-US\$0.02bn). Unit economics have significantly improved, driven by ongoing scale expansion, cost optimization efforts, and stronger monetization, particularly from advertising, which, while still a single-digit share of total revenue, grew by 50% YoY. Management noted minimal macroeconomic impact due to limited exposure to cross-border trade. Its positioning as a price leader may boost penetration, as cost-conscious consumers increasingly turn to the platform in search of better value.

+ Monee has the fastest growth in two years. Monee (formerly SeaMoney) sustained its strong momentum with a 58% YoY increase—its fastest growth in two years. The loan book rose 77% YoY to US\$5.8 bn, supported by a solid expansion in its user base, including 4mn new first-time borrowers, and a strategic push into Malaysia, Thailand, and Brazil. We view this growth as healthy, underpinned by an improving credit profile, with the non-performing loan (NPL) ratio declining further to 1.1% (vs. 1.2% in 4Q24), aided by Shopee's extensive data ecosystem. We project Monee to grow 35% YoY in FY25e.

+ Garena rally continues. Garena sees a surge in bookings (+51% YoY). Quarterly Average Units (QAU), and Quarterly Processing Units (QPU) growth also remain healthy (+11%/32% YoY). The surge benefits from seasonality as several holidays, including Ramadan, entirely fall in Q1. Garena has been seeing a positive trend for more than a year, yet the strength not been reflected in revenue. The increase to 8% YoY growth in revenue this quarter signals that the positive trend is beginning to materialize and we expect revenue growth of 17% for FY25e.

NEUTRAL (Downgraded)

CLOSING PRICE	USD 162.72
FORECAST DIV	USD 0.00
TARGET PRICE	USD 160.00
TOTAL RETURN	-1.7%

COMPANY DATA

Bloomberg CODE:	SE US
O/S SHARES (MN):	592
MARKET CAP (SGD bn / USD bn):	125 / 96
52 - WK HI/LO (USD):	165.31 / 55
3M Average Daily T/O (mn):	5.52

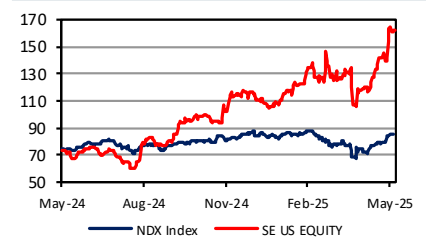
MAJOR SHAREHOLDERS (CLASS A SHARES)

Baillie Gifford & Co	7.2%
Gang Ye	5.0%
WCM Investment Management	4.6%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	34.5	19.5	53.4
NASDAQ RETURN	17.6	(3.1)	2.4

PRICE VS. NASDAQ



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec, USD (bn)	FY23	FY24	FY25e	FY26e
Revenue	13.1	16.8	21.1	26.5
EBITDA	0.6	0.8	3.0	4.2
Net Profit	0.2	0.4	1.8	2.5
P/S (X)	7.4	5.8	4.7	3.8
P/E (X)	638.9	219.3	54.2	39.4
EV/EBITDA (X)	165.7	114.9	32.0	22.5
ROE (%)	2%	5%	15%	16%

Source: Company, PSR

VALUATION METHOD

Discounted Cash-Flow, WACC 7.6%, g 4.5%

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Negatives

- Nil

Outlook

Garena: SE guided Free Fire's bookings to grow at the same rate as FY24 (+34% YoY).

Shopee: Shopee's growth momentum remains strong. Since 3Q24, Shopee has achieved positive adjusted EBITDA. Plans to further increase the take rate and continued efforts in cost savings will further contribute to its monetisation power. Management has guided full-year 2025 GMV growth ~ 20% YoY (FY24: 28%).

Monee: Monee has grown at its fastest rate in the last eight quarters, with strong loanbook growth and very effective risk management. We expect Monee's revenue to climb as its credit business scales with Shopee's rising transaction volume and expanding user base. We anticipate a continued sequential growth rate for Monee in FY25e.

SE presents a compelling long-term investment opportunity, underpinned by its dominant positions in Southeast Asia's e-commerce, digital finance, and gaming sectors. All three segments are currently seeing high growth: Shopee continues to lead regional online retail, Monee is rapidly expanding its digital lending footprint, and Garena's Free Fire remains the top mobile game globally. The integrated ecosystem has driven consistent revenue growth and profitability. However, in the short term, following a significant rally, the stock trades at a FY25e P/E ratio of 54x, which is high relative to peers (Amazon: 36x) and reflects elevated investor expectations. We see minimum upside at this price level.

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, considering both revenue growth and EBITDA margins, with both metrics needing to exceed the 40% threshold. We have modified this slightly by averaging revenue growth over three years rather than using a single-period growth rate. Adding together SE's 3-year average revenue growth of 17% and its EBITDA margin of 8%, the total of 25% fell short of our required threshold of 40% (Figure 1).

Downgrade to Neutral recommendation with the same target price of US\$160.00

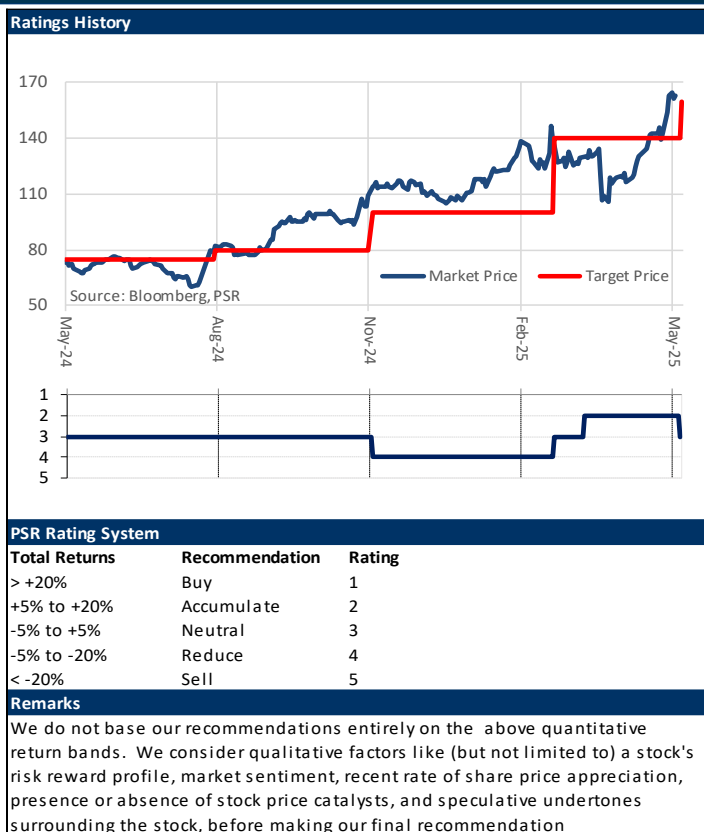
We downgrade our recommendation from Accumulate to Neutral due to the recent share price rally. We have raised our FY25 revenue and PATMI by 2% and 13%, respectively, to reflect robust growth in Monee, the beginning of Garena's revenue rebound, and continued improvements in cost efficiency. We also raise our terminal growth rate assumption to 4.5% (previously 4%), reflecting the long-term growth potential of Monee as it penetrates the large unbanked population in Southeast Asia. We raise our DCF target price to US\$160 (prev. US\$140), with an unchanged WACC of 7.6%.

Figure 1: Rule of 40 calculation fell short the 40% threshold

Rule of 40

3 Year Average Revenue Growth	+	EBITDA Margin	=	Total
17%		8%		25%

Source: Company, PSR



Financials

Income Statement

Y/E Dec, USD mn	FY22	FY23	FY24	FY25e	FY26e
Revenue	12,450	13,064	16,820	21,077	26,456
Gross Profit	5,185	5,834	7,205	10,012	12,566
Other Income	(279)	(221)	(180)	(226)	(284)
EBITDA	(1,114)	583	841	3,033	4,205
Depreciation & Amortization	(456)	(441)	(390)	(531)	(667)
EBIT	(1,571)	142	451	2,502	3,538
Profit before tax	(1,501)	432	779	2,933	4,076
Taxation	(168)	(263)	(321)	(1,114)	(1,549)
PATMI	(1,651)	151	444	1,819	2,528

Balance Sheet

Y/E Dec, USD mn	FY22	FY23	FY24	FY25e	FY26e
ASSETS					
Cash & Cash Equivalents	6,030	2,812	2,405	4,064	7,571
Prepaid Expenses	1,799	1,862	1,661	2,189	2,716
Receivables	269	263	307	517	782
Others	4,591	6,838	12,484	12,723	13,840
Total current assets	12,688	11,774	16,858	19,493	24,909
PPE & IA	1,453	1,259	1,125	1,166	1,020
Long-term Investments	1,254	4,263	2,694	2,774	2,854
Goodwill	230	113	108	108	108
Others	1,378	1,475	1,841	1,906	1,952
Total non-current assets	4,315	7,109	5,768	5,954	5,934
Total Assets	17,003	18,884	22,625	25,447	30,843

LIABILITIES

Accruals	4,575	5,741	7,590	7,590	7,590
Deferred Revenue	1,535	1,209	1,406	2,038	2,832
Others	826	1,220	2,300	1,437	1,774
Total current liabilities	6,936	8,170	11,296	11,065	12,196
Convertible notes	3,339	2,950	1,479	2,494	2,406
Others	917	1,067	1,373	1,373	1,373
Total non-current liabilities	4,256	4,017	2,852	3,867	3,779
Total liabilities	11,192	12,187	14,148	14,932	15,975

Equity

Share Capital & APIC	14,560	15,284	16,703	17,899	19,399
Shareholder Equity	5,811	6,697	8,477	10,515	14,868

Valuation Ratios

Y/E Dec	FY22	FY23	FY24	FY25e	FY26e
P/S (X)	7.3	7.4	5.8	4.7	3.8
P/E (X)	nm	638.9	219.3	54.2	39.4
EV/EBITDA (X)	nm	165.7	114.9	32.0	22.5

Growth & Margins

Growth					
Revenue	25.1%	4.9%	28.8%	25.3%	25.5%
EBITDA	-16.4%	nm	44.3%	260.7%	38.6%
EBIT	-2.6%	nm	217.5%	454.5%	41.4%
Net profit, adj.	-19.3%	nm	194.8%	309.4%	39.0%

Margins

Gross margin	41.6%	44.7%	42.8%	47.5%	47.5%
EBITDA margin	nm	4.5%	5.0%	14.4%	15.9%
EBIT margin	nm	1.1%	2.7%	11.9%	13.4%
Net profit margin	nm	1.2%	2.6%	8.6%	9.6%

Key Ratios

ROE	nm	2.3%	5.2%	17.3%	17.0%
ROA	nm	0.8%	2.0%	7.1%	8.2%
Net Gearing	nm	nm	5.2%	3.3%	nm
Net Debt/EBITDA (X)	nm	nm	nm	nm	nm

Per share data (USD)

Y/E Dec	FY22	FY23	FY24	FY25e	FY26e
Diluted EPS	(2.92)	0.25	0.74	2.99	4.11
BVPS	10.29	11.27	14.09	17.28	24.16

Cash Flow

Y/E Dec, USD mn	FY22	FY23	FY24	FY25e	FY26e
CFO					
Profit after tax	(1,651)	151	444	1,819	2,528
Cash Flow from Operations	(1,056)	2,080	3,277	2,967	4,114
CFI					
CAPEX, net	(924)	(242)	(318)	(398)	(500)
Cash Flow from Investing	(2,429)	(5,804)	(5,041)	(1,619)	(1,721)
CFF					
Cash Flow from Financing	400	366	1,684	1,114	1,114
Net Change in Cash	(3,228)	(3,367)	(162)	2,462	3,507
CCE, end	6,030	1,231	825	4,064	7,571

Source: Company, Phillip Securities Research (Singapore) Estimates

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