

COMPANY RESULTS

SEA (SE US)

3Q24: Robust Quarter As Shopee Returns To Profitability

SEA posted strong 3Q24 results that were in line with our expectations, driven by a better profit profile from all business segments. This was on the back of: a) better profitability from higher take-rates for the e-commerce segment, b) strong growth momentum from the DFS segment, and c) increased bookings from a highly engaged user base for the group's Free Fire game. Given the group's improving outlook, we maintain BUY with a higher target price of US\$138.70.

3Q24 RESULTS

Year to 31 Dec (US\$m)	3Q23	2Q24	3Q24	qoq % chg	yoy % chg	9M24	yoy % chg
Revenue	3,310	3,807	4,328	13.7	30.8	11,869	25.6
Gross profit	1,441	1,585	1,861	17.4	29.1	5,000	16.0
Adj. EBITDA	35	448	521	16.2	n.m	1,370	30.3
Digital Entertainment	234	303	314	3.8	34.4	909	29.3
E-Commerce	(346)	(9)	34	n.m	n.m	4	n.m
Digital Financial Service	166	165	188	14.1	13.4	501	24.8
Net profit	(144)	80	153	91.9	n.m	210.2	(23.3)
Core net profit	(149)	82	149	81.8	n.m	207.0	(20.5)
				(+/- bps)	(+/- bps)		(+/- bps)
Gross margin (%)	43.5	41.6	43.0	1.4	(0.5)	42.1	(3.5)
Adj EBITDA margin (%)	1.1	11.8	12.0	0.2	10.9	18.2	1.0

Source: SEA, UOB Kay Hian

RESULTS

- In line with our expectations.** For 9M24, SEA Limited (SEA) reported higher revenue of US\$11,869m (+25.6% yoy) but lower core net profit of US\$207m (-20.5% yoy), forming 76% and 56% of our full-year forecasts respectively. Backed by a strong 3Q24, 9M24 revenue was driven by the Digital Financial Service (DFS) and e-commerce segments while core net profit was largely lower from the yoy increase in sales and marketing (S&M) expenses, offset by a better profit profile from all business segments.
- Robust quarter.** Similar to 2Q24, all segments posted higher revenue and an enhanced profit profile in 3Q24, specifically the e-commerce segment which returned to EBITDA breakeven after four consecutive quarters of losses. The better broad-based performance was driven by: a) increased gross merchandise value (GMV) and higher take-rates for Shopee, b) strong loan growth momentum from the DFS segment, and c) increased bookings from a highly engaged and growing user base for the group's Free Fire game.

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.	321.1	167.0	108.8	92.4
P/B (x)	9.5	8.2	6.9	5.7	5.2
EV/EBITDA (x)	n.a.	233.0	98.9	68.5	54.3
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	-	-	423	1,162	1,795
UOBKH/Consensus (x)	-	-	0.85	0.49	0.39

Source: SEA LTD, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	US\$107.65
Target Price	US\$138.70
Upside	+28.8%
(Previous TP)	US\$112.54

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):	55,780.3
Market cap (US\$m):	55,780.3
3-mth avg daily t'over (US\$m):	351.9

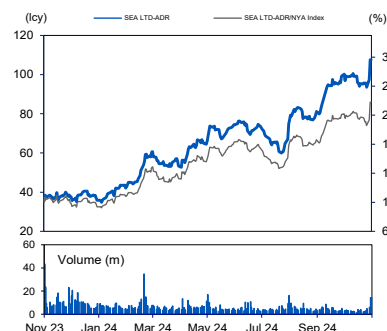
Price Performance (%)

52-week high/low	US\$101.93/US\$34.35
1mth	(1.8)
3mth	45.6
6mth	50.1
1yr	114.3
YTD	140.6

Major Shareholders

Forrest Li	25.2
Tencent	18.6
FY24 NAV/Share (US\$)	12.91
FY24 Net Cash/Share (US\$)	9.69

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- E-commerce: Back to black.** As previously guided by management, the e-commerce segment posted a positive adjusted EBITDA in 3Q24 after four consecutive quarters of losses, driven by increased GMV, higher take-rates in the quarter and Shopee's core markets (Asia and Brazil) returning to profitability. Given increasingly rational regional competition, both commission and ad take-rates were higher in the quarter which helped boost profitability, and the group sees further potential upside specifically for ad take-rates. Also, the group has maintained Shopee's full-year 2024 gross GMV growth guidance at mid-20% yoy growth.
- Digital entertainment: Increased bookings and strong engagement.** For 3Q24, bookings were 24.3% higher yoy while user engagement remains robust with Free Fire maintaining above 100m (+25% yoy) daily average users throughout 3Q24. 3Q24 quarterly active users grew 15.5% yoy while quarterly paying users also grew 23.9% yoy. Quarterly paying user ratio increased to 8.0% yoy from 7.5% in 3Q23.
- Digital financial services: Outperformer.** Loans principal outstanding surged higher to US\$4.6b (2Q24: US\$3.5b, 3Q23: US\$2.7b) at end-3Q24, driven by new active users acquired from Shopee's large user base, coupled with steady off-Shopee user acquisition growth in Indonesia. Off-Shopee loans now makes up for more than 50% of Shopee's Indonesian loan book. NPL ratio improved to 1.2% in 3Q24 (2Q24: 1.3%, 3Q23: 1.4%).
- Looking forward, we reckon that SEA will continue to post stable revenue and adjusted EBITDA in 4Q24 on the back of:**

- Shopee being on track to achieve >20% yoy GMV growth.** Shopee continues to maintain its leadership in Asia markets, and we expect to see positive impact from Shopee's recent take-rate hikes. In Brazil, Shopee achieved EBITDA breakeven for the first time, and we expect continued improving unit economics moving forward. Its livestreaming feature also made up a slightly higher proportion of orders qoq across all markets. Management views the competitive landscape as stable and sees limited impact from cross border competitors entering its operating markets due to its strong pricing advantage and localised e-commerce ecosystem.
- User base growth in digital entertainment.** Free Fire continues to be one of the most popular mobile games in 3Q24. To continue driving user engagement and acquisition, the group has implemented continued localisation of content, ramp-up of in-game and offline events and strategic brand partnerships. One example is Free Fire's collaboration with Thailand's viral pygmy hippo, Moo Deng, announced in Oct 24, which will have an in-game event and more in Nov 24.
- New product offerings and use case expansion.** To further drive user engagement and loan book growth, the group is expected to provide more customised payment solutions and case uses such as facilitating large-ticket mobile phone purchases in retail stores (SPayLater Limit Xtra), diversifying its credit portfolio across various markets and products. Around 70% of Southeast Asia's population remains unbanked, pointing to this region's large growth potential.

EARNINGS REVISION/RISK

- We adjust our 2024-26 earnings estimates,** on the back of higher e-commerce sales assumptions while tweaking our margin assumptions. We now forecast 2024-26 net profit at US\$360m (US\$369m previously), US\$574m (US\$586m previously) and US\$701m (US\$666m previously) respectively

VALUATION/RECOMMENDATION

- Maintain BUY with a higher target price of US\$138.70 (US\$112.54 previously),** largely due to a higher valuation for the e-commerce segment. In our view, we increase our 2025 e-commerce sales assumptions from US\$11b to US\$14b given that Shopee's strategic initiatives has started to pay off and that it has maintained its strong growth trajectory.

SHARE PRICE CATALYST

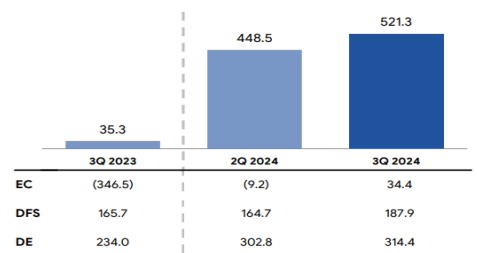
- New release of self-developed games.
- Higher-than-expected market share and margin in the operating countries.

SOTP VALUATION SUMMARY (REVISED)

	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
Total				138.70

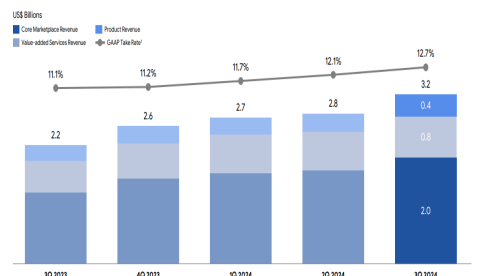
Source: UOB Kay Hian

SEA'S SEGMENTAL ADJUSTED EBITDA BREAKDOWN



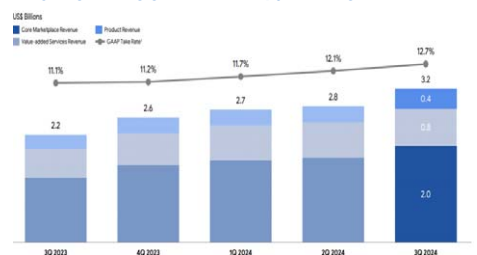
Source: SEA, UOB Kay Hian

SHOPEE'S TAKE-RATES AND REVENUE BREAKDOWN



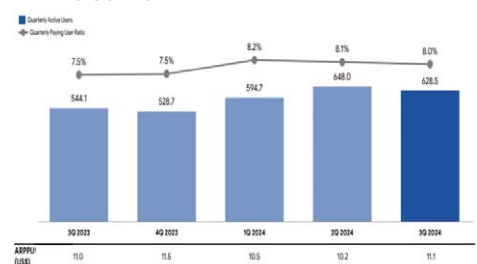
Source: SEA, UOB Kay Hian

DFS' LOAN BOOK 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
Pre-tax profit	425.4	705.0	1,004.3	1,197.4
Tax	(262.7)	(350.6)	(437.5)	(504.7)
Minorities	6.4	6.0	7.5	8.7
Net profit	169.0	360.4	574.2	701.3
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
Total assets	18,972.8	24,443.6	28,377.3	31,594.4
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
Total liabilities & equity	18,972.8	24,443.6	28,377.3	31,594.4

CASH FLOW

Year to 31 Dec (US\$m)	2023	2024F	2025F	2026F
Operating	934.7	2,947.6	2,199.4	2,150.7
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
Investing	(4,692.4)	(363.6)	(371.0)	(381.2)
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)
Financing	458.3	815.6	1,027.5	48.8
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
Net cash inflow (outflow)	(3,299.4)	3,399.7	2,855.9	1,818.4
Beginning cash & cash equivalent	7,610.4	4,243.7	7,643.4	10,499.3
Changes due to forex impact	0.0	0.0	0.0	0.0
Ending cash & cash equivalent	4,311.0	7,643.4	10,499.3	12,317.7

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
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
Growth				
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
Leverage				
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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