

COMPANY UPDATE

SEA (SE US)

Making Strategic Waves In A Sea Of Opportunities

We saw several positive developments for SEA over the last few weeks, including: a) Shopee's partnership with YouTube to drive site traffic, b) second round of take rate hikes this year which indicates easing competition, and c) Thailand 'virtual bank licence application which could expand SeaMoney's ecosystem. We expect to see further re-rating for SEA as it builds up stronger moats. Maintain BUY with a 28% higher target price of US\$112.54.

WHAT'S NEW

- **Shopee's partnership with YouTube to drive site traffic.** Video-sharing platform YouTube and Shopee have partnered up to launch YouTube Shopping in Indonesia, followed by Thailand and Vietnam in the coming weeks. This collaboration will allow people to purchase products displayed on YouTube via direct links to Shopee. As of Jul 24, Indonesia has the fourth largest YouTube user base with 139m users, and tapping into this is expected to enhance visibility for Shopee sellers. Furthermore, YouTube's algorithms ensure that users are shown products that they are likely to be interested in, boosting sales potential.
- **Second round of take rate hikes this year proves Shopee's competitive moat.** From Jul-Sep 24, we observed Shopee raising seller fees across seven operating markets, as listed in the table (next page). We are of the view that these meaningful increases will have minimal impact to GMV, as Shopee has retained GMV growth in the last round of take rate hikes. To recap, Sea Ltd (SEA) reported 29% yoy growth in 2Q24 GMV despite raising take rates across Mar-Apr 24. Moreover, Shopee's take rates are higher than that of Lazada and TikTok Shop in most markets, proving its competitive moat. We expect SEA's e-commerce segment to see EBITDA improvement and margin expansion, bearing in mind that management has guided profitability for the segment in 3Q24.
- **Looking to expand SeaMoney ecosystem with Thailand virtual bank licence application.** SEA has formed a consortium with four Thai companies – BTS Group Holdings (public transport conglomerate), Bangkok Bank (leading commercial bank), Saha Group (leading consumer products conglomerate) and Thailand Post (national postal service provider) – to apply for a virtual bank license in Thailand. The group expects to leverage on each party's strengths to provide digital financial services in Thailand. The Bank of Thailand received five applications for the virtual banking licence, and expects to award the three winning bidders by mid-25. Thailand has a significant unbanked or underbanked market (63% of 71m population), and we expect it to be a large market opportunity for SEA should it be awarded the virtual banking licence.

KEY FINANCIALS

Year to 31 Dec (US\$m)	2021	2022	2023	2024F	2025F
Net turnover	9,955	12,450	13,064	15,604	16,842
EBITDA	(1,583)	(1,488)	225	452	625
Operating profit	(1,583)	(1,488)	225	452	625
Net profit (rep./act.)	(2,047)	(1,651)	169	369	586
Net profit (adj.)	(2,047)	(1,651)	169	369	586
EPS (US\$ cent)	(383.8)	(295.9)	30.4	59.7	91.2
PE (x)	n.a.	n.a.	312.4	158.8	104.0
P/B (x)	6.8	9.3	8.0	6.7	5.5
EV/EBITDA (x)	n.a.	n.a.	236.5	117.6	85.0
Dividend yield (n.a.)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	(20.6)	(13.3)	1.3	2.4	3.5
Net debt/(cash) to equity (%)	(98.2)	(73.2)	(18.4)	(31.8)	(46.4)
Interest cover (x)	(15.7)	n.a.	n.a.	n.a.	n.a.
ROE (%)	(38.0)	(25.2)	2.7	4.8	5.9
Consensus net profit	-	-	419.3	1,130.4	1,741.9
UOBKH/Consensus (x)	-	-	0.40	0.33	0.34

Source: SEA LTD, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	US\$94.83
Target Price	US\$112.54
Upside	+18.7%
(Previous	US\$88.21)

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):	54,275.0
Market cap (US\$m):	54,275.0
3-mth avg daily t'over (US\$m):	357.6

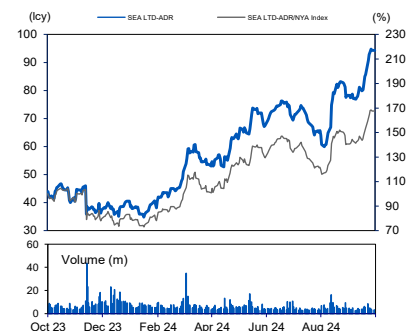
Price Performance (%)

52-week high/low	US\$96.09/US\$34.35			
1mth	3mth	6mth	1yr	YTD
15.2	27.3	77.0	125.3	134.1

Major Shareholders

	%
Forrest Li	25.2
Tencent	18.6
FY24 NAV/Share (US\$)	11.84
FY24 Net Cash/Share (US\$)	2.18

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Shopee's strategic initiatives are paying off.** The competitive e-commerce landscape has fostered a high level of inventiveness in the ecosystem. Shopee has continually built successful strategies including free shipping, flash sales and double date promotions. Most recently, it saw an eightfold jump in sales from its Shopee Live 9.9 campaign in Thailand despite lower consumer purchasing power. According to a Populix study in 2023, 69% of consumers reported that Shopee Live was their go-to live streaming feature for shopping. This is further reinforced by a 2023 study by IPSOS, which showed that 72% of sellers prefer using Shopee Live for effective customer engagement. As Shopee continues to appeal to both existing and new customers and widen the competitive gap between itself and its peers, we lift our PS multiple to 3.0x (2.5x previously), in line with its peers' average.

SHOPEE'S RECENT TAKE RATE HIKES

Country	Effective From	Prior Effective Take Rate	Current Effective Take Rate
Indonesia			
Marketplace sellers	Sep 24	3.5-6.5% + Rp 1,000	4.3-8% + Rp 1,000
ShopeeMall	Sep 24	4.9-7.1% + Rp 1,000	5.6-10.1% + Rp 1,000
Malaysia			
Marketplace sellers	Aug 24	2-10%	3.5-14.5%
ShopeeMall	Aug 24	5-15%	9.5-19.5%
Philippines			
Marketplace sellers	Jul 24	6.5-7.8%	8.5-9.8%
ShopeeMall	Jul 24	6.9-8.9%	7.5-10.9%
Singapore			
Marketplace sellers	Sep 24	5.5%	7%
ShopeeMall	Sep 24	9-11%	10-12%
Thailand			
Marketplace sellers	Jul 24	8-9%	8-11%
ShopeeMall	Jul 24	8-11%	8-13%
Vietnam			
Marketplace sellers	Jul 24	7.3%	8.2%
ShopeeMall	Jul 24	5.1-11.2%	5.7-11.8%
Brazil			
	Jul 24	14% + R\$3	14% + R\$4

Source: SEA, UOB Kay Hian

EARNINGS REVISION/RISK

- Earnings revision:** None.

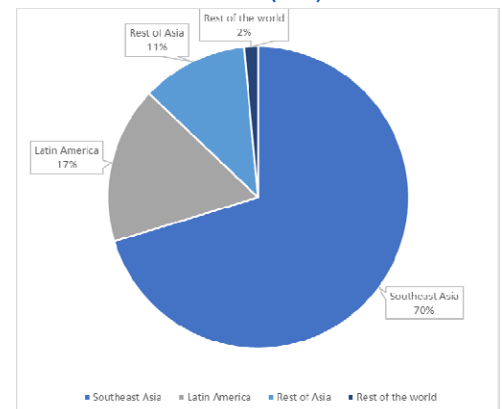
VALUATION/RECOMMENDATION

- Maintain BUY with a 28% higher target price of US\$112.54 (US\$88.21 previously).** We roll over our valuation base year to 2025, and raise our PS multiple for the e-commerce segment to 3.0x 2025F sales (2.5x 2024F PS previously), in line with peers' average of 3.0x as Shopee's strategic initiatives pay off and it maintains its growth trajectory.

SHARE PRICE CATALYST

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

REVENUE BY GEOGRAPHY (2023)



Source: UOB Kay Hian

SOTP VALUATION SUMMARY

	2025F net profit/ sales (US\$m)	Valuation Method	Valuation (x)	Fair Value (US\$)
Digital Entertainment	1,111 (net profit)	PE	9.0	17.96
E-Commerce	11,103 (sales)	PS	3.0	59.82
Digital Financial Services	968 (net profit)	PE	20	34.76
Total (rounding off)				112.54

Source: UOB Kay Hian

PEER COMPARISON (E-COMMERCE)

Company	Ticker	Price @ 27 Sep 24	Market Cap (US\$m)	2025 P/S
Meituan-Class B	3690 HK	HKD152.2	119,174	2.2
Pdd Holdings Inc	PDD US	USD129.4	179,707	2.5
Amazon.Com Inc	AMZN US	USD191.16	2,006,333	2.8
Ebay Inc	EBAY US	USD63.94	31,267	2.9
Mercadolibre Inc	MELI US	USD2,100.21	106,475	4.2
Average				3.0

Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (US\$m)	2022	2023	2024F	2025F
Net turnover	12,449.7	13,063.6	15,604.4	16,842.2
EBITDA	(1,487.5)	224.8	452.0	625.3
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	(1,487.5)	224.8	452.0	625.3
Associate contributions	11.2	(7.0)	0.0	0.0
Net interest income/(expense)	70.1	290.2	301.1	365.5
Pre-tax profit	(1,489.4)	425.4	627.5	865.1
Tax	(168.4)	(262.7)	(267.4)	(289.2)
Minorities	6.4	6.4	8.8	9.5
Net profit	(1,651.4)	169.0	368.9	585.5
Net profit (adj.)	(1,651.4)	169.0	368.9	585.5

BALANCE SHEET

Year to 31 Dec (US\$m)	2022	2023	2024F	2025F
Fixed assets	1,387.9	1,207.7	1,211.7	1,217.7
Other LT assets	2,909.2	5,901.6	7,387.0	7,527.7
Cash/ST investment	7,610.4	4,311.0	6,917.7	9,312.4
Other current assets	5,095.4	7,552.5	7,787.5	8,190.4
Total assets	17,002.8	18,972.8	23,303.9	26,248.1
ST debt	88.4	146.7	0.0	0.0
Other current liabilities	6,847.3	8,022.3	8,884.4	9,181.7
LT debt	3,338.8	2,949.8	4,148.0	4,148.0
Other LT liabilities	917.5	947.6	947.6	947.6
Shareholders' equity	5,715.7	6,593.8	8,723.3	11,139.3
Minority interest	95.1	103.8	94.9	85.4
Total liabilities & equity	17,002.8	18,972.8	23,303.9	26,248.1

CASH FLOW

Year to 31 Dec (US\$m)	2022	2023	2024F	2025F
Operating	(1,055.7)	934.7	2,222.0	1,738.2
Pre-tax profit	(1,500.5)	432.4	627.5	865.1
Tax	(168.4)	(262.7)	(267.4)	(289.2)
Deprec. & amort.	428.3	0.0	350.9	355.2
Associates	11.2	(7.0)	0.0	0.0
Working capital changes	(1,369.6)	597.0	(245.6)	4.1
Non-cash items	854.9	175.0	1,756.6	802.9
Other operating cashflows	688.5	n.a.	n.a.	n.a.
Investing	(2,428.8)	(4,692.4)	(363.6)	(371.0)
Capex (growth)	(924.2)	0.0	(338.2)	(339.3)
Investments	(3,797.3)	(4,692.4)	0.0	0.0
Proceeds from sale of assets	2,401.0	0.0	0.0	0.0
Others	(108.4)	0.0	(25.4)	(31.8)
Financing	400.3	458.3	815.6	1,027.5
Dividend payments	0.0	0.0	0.0	1.0
Issue of shares	50.2	0.0	561.8	631.6
Proceeds from borrowings	(11.6)	177.6	(266.0)	0.0
Loan repayment	361.6	0.0	0.0	1.0
Others/interest paid	n.a.	280.7	519.9	394.0
Net cash inflow (outflow)	(3,084.2)	(3,299.4)	2,674.0	2,394.7
Beginning cash & cash equivalent	10,838.1	7,610.4	4,243.7	6,917.7
Changes due to forex impact	(143.5)	n.a.	n.a.	n.a.
Ending cash & cash equivalent	7,610.4	4,311.0	6,917.7	9,312.4

KEY METRICS

Year to 31 Dec (%)	2022	2023	2024F	2025F
Profitability				
EBITDA margin	(11.9)	1.7	2.9	3.7
Pre-tax margin	(12.0)	3.3	4.0	5.1
Net margin	(13.3)	1.3	2.4	3.5
ROA	n.a.	0.9	1.7	2.4
ROE	n.a.	2.7	4.8	5.9
Growth				
Turnover	25.1	4.9	19.4	7.9
EBITDA	n.a.	n.a.	101.1	38.3
Pre-tax profit	n.a.	n.a.	47.5	37.9
Net profit	n.a.	n.a.	118.2	58.7
Net profit (adj.)	n.a.	n.a.	118.2	58.7
EPS	n.a.	n.a.	96.7	52.7
Leverage				
Debt to total capital	37.1	31.6	32.0	27.0
Debt to equity	60.0	47.0	47.6	37.2
Net debt/(cash) to equity	(73.2)	(18.4)	(31.8)	(46.4)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.

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