

Sea Ltd (SE US)

2Q24: Strong beat; raise TP/earnings

Firing on multiple cylinders; guidance revised up

GAAP 2Q revenues grew 23% YoY/2% QoQ and came 5% ahead of MIBG and 3% ahead of street. Adj. EBITDA declined 12% YoY but increased 12% QoQ and came 13% ahead of street expectations. All the operating segment revenues and Adj. EBITDA came ahead of expectations, except for financial services revenues which came 1-2% below. Shopee GMV increased 29% YoY but declined 1% QoQ due to seasonality. This was 7%/3% ahead of MIBG/street. Garena bookings increased 21% YoY/5% QoQ and came 6-7% ahead of MIBG/street est. Shopee GMV guidance revised up to mid-20% YoY growth in 2024 (from high teens).

Key takeaway from the results

Shopee momentum was helped by decent consumer spending as well as its edge in own logistics and live streaming. E-commerce adj. EBITDA losses narrowed to -USD9m from -USD22m in 1Q. Garena is showing firm signs of growth with 2Q/1H24 bookings up 21%/16% YoY leaving room for potential upward revision to SE's double-digit growth guidance. Free Fire MAU's were up 19% YoY/9% QoQ with strong momentum sustaining in the recent months. DFS segment as well posted strong 21% YoY growth in revenues with a 2ppt improvement in Adj. EBITDA margins. Group operating costs remained relatively stable while the focus remains on growth.

Key takeaway from the post results analyst call

Management noted that it sees limited risk from Temu (refer to our note [here](#)). Room remains for take-rate improvement but bigger growth potential is seen with the paid ads. Management noted that ecommerce Adj. EBITDA improvement is a matter of choice and not market condition. Effort to make Garena as an evergreen franchise is firmly visible with management deploying various tools (incl. AI) to sustain revenues. DFS continues to post decent momentum, however, management is taking a more prudent approach to growth. Refer to page 5 for detailed takeaways.

Reiterate BUY; Raise TP by 7% to USD96; Raise NPAT estimates by 9-10%

Following strong 2Q delivery, we raise our revenue/Adj. EBITDA estimates for 2024-26 by 4-17% and raise our SoTP-based TP by 7% to USD96. This reflects a rise in estimates while keeping the target multiples. Our Adj. EBITDA estimates are 10-14% ahead of the street and we expect the street to raise its estimates given the strong beat. BUY.

| FYE Dec (USD m) | FY22A | FY23A | FY24E | FY25E | FY26E |
|------------------------------|----------|----------|----------|----------|----------|
| Revenue | 12,450 | 13,064 | 16,011 | 18,708 | 20,700 |
| EBITDA | (704) | 783 | 1,211 | 1,980 | 2,662 |
| Core net profit | (1,296) | 269 | 705 | 1,537 | 2,193 |
| Core FDEPS (cts) | (227.7) | 45.6 | 119.7 | 261.1 | 372.6 |
| Core FDEPS growth(%) | nm | nm | 162.4 | 118.1 | 42.7 |
| Net DPS (cts) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Core FD P/E (x) | nm | 88.8 | 62.2 | 28.5 | 20.0 |
| P/BV (x) | 5.1 | 3.5 | 5.5 | 4.5 | 3.5 |
| Net dividend yield (%) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| ROAA (%) | (7.3) | 1.5 | 3.6 | 7.1 | 8.9 |
| EV/EBITDA (x) | nm | 29.6 | 34.9 | 20.8 | 14.8 |
| Net gearing (%) (incl perps) | net cash | net cash | net cash | net cash | net cash |
| Consensus net profit | - | - | na | na | na |
| MIBG vs. Consensus (%) | - | - | na | na | na |

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BUY

| | |
|-----------------------|------------------|
| Share Price | USD 74.51 |
| 12m Price Target | USD 96.00 (+29%) |
| Previous Price Target | USD 90.00 |

Company Description

Sea is an internet company that has businesses in gaming, e-commerce and digital financial services.

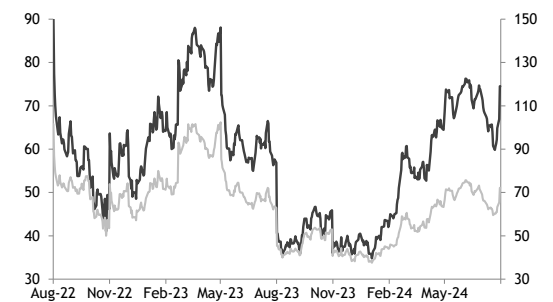
Statistics

| | |
|------------------------|-------------|
| 52w high/low (USD) | 76.28/34.82 |
| 3m avg turnover (USDm) | 71.9 |
| Free float (%) | 98.1 |
| Issued shares (m) | 564 |
| Market capitalisation | USD42.0B |
| | USD42.0B |

Major shareholders:

| | |
|-------------|-------|
| Tencent | 18.6% |
| Li Xiaodong | 17.1% |
| Gang Ye | 6.1% |

Price Performance



| | -1M | -3M | -12M |
|-----------------------|-----|-----|------|
| Absolute (%) | 1 | 12 | 31 |
| Relative to index (%) | 1 | 11 | 15 |

Source: FactSet

Abbreviations in this report

AOV - Average order value
AI - Artificial intelligence
SoTP - Sum of the parts
MAU - Monthly active users
DAU - Daily active users
DFS - Digital financial services
3PL - Third party logistics
GMV - Gross merchandise value

Other companies mentioned in this report

Temu - unlisted subsidiary of PDD Holdings (PDD US, USD144.85, not rated)
Grab Ltd (GRAB US, USD3.37, HOLD, TP: USD3.70)
MercadoLibre (MELI US, USD1912.25, not rated)
Amazon Inc (AMZN US, USD170.62, not rated)

TikTok is unlisted subsidiary of ByteDance (unlisted)

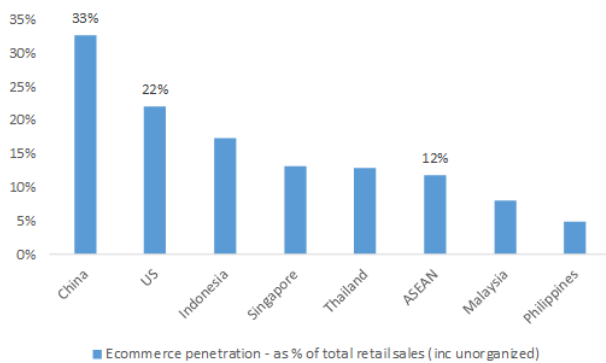
ESG@MAYBANK IGB

Tear Sheet Insert

Value Proposition

- Sea is a Singapore-founded internet company with businesses in digital entertainment, e-commerce, and digital financial services. It has dominant E-commerce market share in ASEAN and Taiwan
- Sea is a beneficiary of digitisation in the under penetrated (2-3x below evolved markets) ASEAN e-Commerce space. We estimate ASEAN GMV to grow at a 15% CAGR over 2030E.
- Own logistics & strong balance sheet remains key competitive moat. Risk of TikTok disruption is abetting while cross border platforms have unfavourable unit economics in ASEAN
- Although Sea's gaming business is highly dependent on Free Fire, we see it is a defensive franchise with its position in less crowded and budget conscious EM markets.

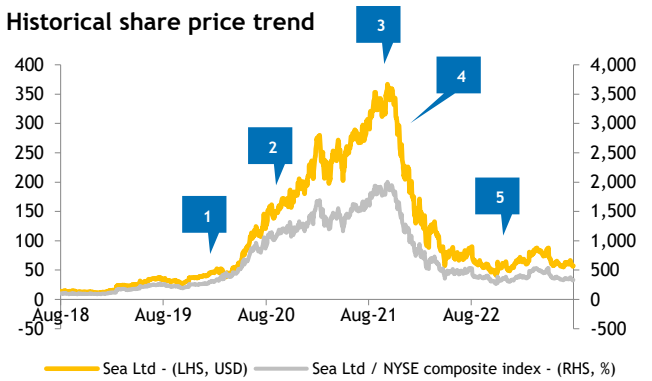
Shopee is exposed to fast-growing ASEAN e-commerce GMV



Source: Euromonitor

Price Drivers

Historical share price trend



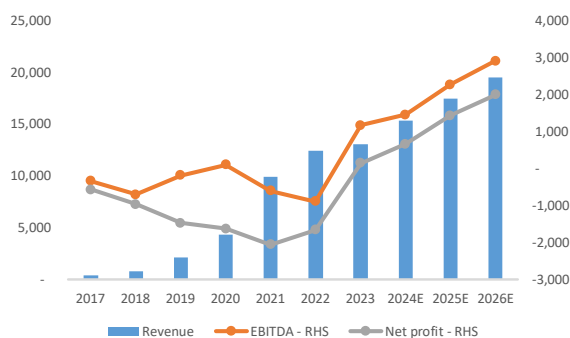
Source: Company, Maybank IBG Research

- Strong 4Q18 and 1Q19 results on continued success of Free Fire.
- 2Q19 loss widened despite results beat.
- Sea was beneficiary of Covid-19, and share price rallied alongside e-commerce peers.
- Stronger-than-expected 2Q21 results, driven by Garena and Shopee, and company raising guidance.
- Sell-off due to concerns of normalising growth for Garena Free Fire, as well as broader weakness for pre-earnings growth companies amid hawkish Fed outlook.

Financial Metrics

- We forecast FY23-26E revenue CAGR of 14%, mainly driven by e-commerce and digital financial services.
- Adj EBITDA is expected to grow at 35% CAGR helped by E-commerce business and digital financial services while expect gaming Adj. EBITDA for FY25-26 to grow at low single digit
- Expect company to turn FCF positive in FY24E
- Cash balance as of 1Q24 stand at USD8.6b

Revenue, EBITDA and net profit projections (USD m)



Source: MBIG, Company

Swing Factors

Upside

- Stronger-than-expected user growth (across all businesses).
- Stronger topline growth as Shopee could potentially capture more market share, especially with key peer GoTo looking to rapidly scale its business towards profitability.

Downside

- Weaker-than-expected consumer spending in the region amid macro uncertainties hurting Shopee's GMV growth.
- Slowing user growth metrics, especially if this is due to increasing competition across Sea's offerings.
- Higher-than-expected credit costs for SeaMoney due to a slowdown in economic growth.
- New entrants which could intensify competition in the Southeast Asia e-commerce industry.

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| | |
|---|---------------|
| Risk Rating & Score ¹ | 3.0 |
| Score Momentum ² | -0.0 |
| Last Updated | 14 June 2024 |
| Controversy Score ³ (Updated: 14 June 2024) | 0 - No report |

Business Model & Industry Issues

- As an internet business, we believe social issues is the most relevant, followed by governance and then environmental.
- In the e-commerce business, driving social good (e.g. providing and teaching merchants how to use services) is integral to sustainably grow the platform and to retain merchants while monetising them. For instance, in Indonesia, 57% of MSMEs reported that they generated higher profits on Shopee than on other marketplaces.
- We believe the key issues for Garena are: i) addiction; and ii) compliance to local laws. For instance, Bangladesh is reportedly trying to ban Free Fire (alongside other addictive apps like PUBG and Tik Tok). Garena's response to appease authorities is important.
- The financial sector is also a highly regulated one. In our view SeaMoney's growth will be in part influenced by not just adherence to local laws, but how SeaMoney advances government agendas (e.g. facilitate roll-out of financial assistance in Malaysia and regulatory support for digital banking initiatives in ASEAN).
- Data security is also a critical ESG factor. Sea has employed various security measures to ensure this. (e.g. encryption of sensitive data, monitoring for unauthorized access etc).

Material E issues

- Aside from the increased use of packaging materials associated with e-commerce as compared to traditional commerce, we do not see much environmental issues as the remaining businesses are digital based (i.e. gaming and digital financial services).
- We believe carbon emissions from running the computer servers that Sea uses is also a key environmental footprint, although not much has been discussed in Sea's sustainability report pertaining environmental factors.

Material S issues

- Of Sea's >30,000 global workforce, 46% are females. Furthermore, 46% of the middle to senior management positions are held by females. SEA also boast a diverse culture of over 50 different nationalities in its company.
- Sea strongly believes in hiring and grooming local talent, and is one of the largest employers of fresh graduates across Southeast Asia.
- During the pandemic, Shopee provided financial support and relief to SMEs by easing operational costs and attracting new customers. Shopee also provided the SMEs with online courses to help them to scale their business in the long run. Furthermore, SEA committed more than USD35m worth of COVID-19 Seller Support Packages across their markets, and provided donations of more than USD510,000.

Key G metrics and issues

- The board has 6 members, 3 of which are non-executive.
- From a data-security standpoint, Sea is committed to ensuring that the processing of personal data of consumers, employers and other stakeholders are carried out lawfully. Sea states that it uses its data collected to improve products to better serve its communities.
- Given a large part of Sea's competitive advantage is derived from the network effects from its large user base across multiple markets, compliance with laws is of utmost importance.

¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. ²**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. ³**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Result key takeaways:

E-commerce

- Shopee momentum was helped by decent consumer spending across all the markets. On top, Shopee's edge in own logistics and live streaming remained its key competitive moat.
- Given limited competition, there remains room for further take-rate improvement as ASEAN remains at the lower end of the global average on take-rates. Management sees bigger growth potential with the paid ads with key metrics posting strong growth and expects this to translate to revenues in the coming quarters.
- Management noted that so far it has seen limited risk from Temu in various markets while Shopee is more price competitive vs. Temu in various markets. Based on our analysis, we find Shopee products 3-23% cheaper in Thailand and on the cheaper side in Malaysia as well (refer to our note [here](#)).
- Management further noted that unlike the US and Europe which have logistics/fulfilment cost disadvantage vs. China (works to Temu's advantage as a cross border platform), Temu doesn't enjoy a similar cost advantage in ASEAN. Based on our analysis, given lower AOV in ASEAN, logistics cost could be as high as 40% of the average basket size, making the unit economics unfavourable.
- Live streaming is increasing alongside the GMV growth with the live streaming order volume likely remaining at a similar level as 4Q23/1Q24. As such, we see live streaming as good to have as a differentiator but not a key competitive edge.
- **Logistics as a competitive moat.** Management did underscored its key competitive moat with its own logistics. It noted that its competitive moat is on the back of its scale which helps to lower down the unit cost. It noted that it would be difficult for 3PL logistics providers to meet its scale/unit pricing giving it a structural competitive edge. Our case studies from various markets reflect a logistics-driven competitive edge for Amazon and MELI (refer to note [here](#)).
- Management noted that over the long term, it expects e-commerce space to consolidate to 2-3 players wherein it expects Shopee to emerge as dominant #1. Then, it expects Adj. EBITDA and margins to increase non-linearly, hitting its long-term target range of 2-3% of GMV.
- While e-commerce remained EBITDA negative, losses narrowed to -USD9m from -USD22m in 1Q. It was a deliberate decision to invest in a business with the company seeing high growth potential in various markets especially Brazil. Management noted that e-commerce Adj. EBITDA improvement is a matter of choice and not market condition as it doesn't want to sacrifice the strong growth potential for the sake of profitability.
- GMV growth guidance revised upward to mid-20% in 2024 from high teens previously. Following the strong 2Q delivery and revised guidance, we raise our Shopee GMV estimates by 3-5% for 2024-26 with a slightly higher increase in GAAP revenues. However, our Adj. EBITDA revision is a bit muted at 2-4% for FY25-26E as we see the company continuing to balance margins for superior market growth potential.

Fig 1: E-commerce 2Q24 segment delivery

| | 2Q23 | 3Q23 | 4Q23 | 1Q24 | 2Q24 | YoY | QoQ | 2Q24E | | vs. | |
|---------------------------------|--------|--------|--------|--------|--------|-----|-----|--------|--------|------|--------|
| | | | | | | | | MIBG | Street | MIBG | Street |
| GAAP revenue (USD m) | 2,111 | 2,232 | 2,591 | 2,748 | 2,821 | 34% | 3% | 2,546 | 2,618 | 11% | 8% |
| Adjusted EBITDA (USD m) | 150 | 346 | 225 | 22 | 9 | | | - | 21 | | |
| Gross Merchandise Value (USD m) | 18,054 | 20,100 | 23,100 | 23,580 | 23,300 | 29% | -1% | 21,870 | 22,566 | 7% | 3% |
| Gross orders (m) | 1,807 | 2,234 | 2,526 | 2,564 | 2,535 | 40% | -1% | | | | |
| Marketplace take rate (%) | 10.5% | 9.8% | 10.0% | 9.5% | 9.9% | -6% | 4% | 9.2% | 9.3% | | |

Source: Maybank IBG Research, Company

Fig 2: E-commerce estimate revision

| USD m | New | | | Old | | | % change | | |
|------------------|--------|---------|---------|--------|---------|---------|----------|-------|-------|
| | 2024E | 2025E | 2026E | 2024F | 2025F | 2026F | 2024E | 2025E | 2026E |
| Ecommerce | | | | | | | | | |
| Revenues | 11,731 | 13,754 | 15,369 | 11,035 | 12,655 | 14,312 | 6% | 9% | 7% |
| Adjusted EBITDA | 93 | 755 | 1,449 | 57 | 743 | 1,389 | 63% | 2% | 4% |
| GMV | 97,161 | 110,603 | 121,897 | 94,146 | 105,724 | 117,864 | 3% | 5% | 3% |

Source: Company, Maybank IBG Research

Digital Entertainment/Garena

- Garena is showing firm signs of growth with 2Q/1H24 bookings up 21%/16% YoY leaving room for potential upward revision to SE's double digit growth guidance.
- Free Fire remains the key growth engine with MAU up 19% YoY/9% QoQ with a strong momentum sustaining in the recent months.
- Management noted that MAU/DAU momentum remained strong in July 2024 citing SensorTower data which in turn could pave way a potentially strong 3Q24, in our view.
- Effort to make Garena as an evergreen franchise is firmly visible with management aspiring it to make it a platform given its strong active user base and leveraging AI to improve user experience and content creator efficiency.
- Following the strong 2Q delivery and revised guidance, we raise our Digital Entertainment Bookings by 5% for 2024-26. Adj EBITDA revision is higher for 2024 given strong 2Q momentum.

Fig 3: Digital Entertainment 2Q24 segment delivery

| | 2Q23 | 3Q23 | 4Q23 | 1Q24 | 2Q24 | YoY | QoQ | 2Q24E | | vs. | |
|--|------|-------|-------|-------|------|-----|-----|-------|--------|------|--------|
| | | | | | | | | MIBG | Street | MIBG | Street |
| Digital Entertainment (Bookings) - USD m | 443 | 448 | 456 | 512 | 537 | 21% | 5% | 505 | 502 | 6% | 7% |
| Adjusted EBITDA (USD m) | 239 | 234 | 217 | 292 | 303 | 26% | 4% | | 270 | | 12% |
| Quarterly active users (m) | 545 | 544.1 | 528.7 | 594.7 | 648 | 19% | 9% | 624 | 605 | 4% | 7% |
| Quarterly paying users (m) | 43 | 41 | 40 | 49 | 52 | 22% | 8% | | | | |
| Pay ratio (%) | 7.9% | 7.5% | 7.5% | 8.2% | 8.1% | | | | | | |
| ARPU (USD) | 10.3 | 11.0 | 11.5 | 10.5 | 10.2 | -1% | -3% | | | | |

Source: Maybank IBG Research, Company

Fig 4: Digital Entertainment estimate revision

| USD m | New | | | Old | | | % change | | |
|------------------------------|-------|-------|-------|-------|-------|-------|----------|-------|-------|
| | 2024E | 2025E | 2026E | 2024F | 2025F | 2026F | 2024E | 2025E | 2026E |
| Digital Entertainment | | | | | | | | | |
| Bookings | 2,127 | 2,194 | 2,241 | 2,033 | 2,092 | 2,143 | 5% | 5% | 5% |
| Revenues | 2,014 | 2,337 | 2,403 | 2,082 | 2,231 | 2,295 | -3% | 5% | 5% |
| Adjusted EBITDA | 1,167 | 1,140 | 1,153 | 1,024 | 1,092 | 1,109 | 14% | 4% | 4% |
| Quarterly active users - m | 681 | 712 | 730 | 656 | 693 | 710 | 4% | 3% | 3% |

Source: Company, Maybank IBG Research

Digital Financial services

- DFS segment as well posted strong 21% YoY growth with a 2ppt improvement in Adj. EBITDA margins.
- Focus remains on both Shopee and off-Shopee platform. On the off-Shopee platform it is offering a Buy Now Pay Later option for purchases such as handset/home equipment (offline) as well services like restaurant/travel bookings etc (online). We see Shopee also stepping into local services segment wherein Grab has made some inroads while TikTok is recently reported to have rolled services in a few ASEAN markets.
- Management is taking a more prudent approach to DFS growth so as not to sacrifice subs quality/credit risk.
- We broadly maintain our DFS segment estimates.

Fig 5: DFS 2Q24 segment delivery

| | 2Q23 | 3Q23 | 4Q23 | 1Q24 | 2Q24 | YoY | QoQ | 2Q24E | | vs. | |
|-------------------------|------|------|------|------|------|-----|-----|-------|--------|------|--------|
| | | | | | | | | MIBG | Street | MIBG | Street |
| GAAP revenue (USD m) | 428 | 446 | 472 | 499 | 519 | 21% | 4% | 530 | 524 | -2% | -1% |
| Adjusted EBITDA (USD m) | 137 | 166 | 148 | 149 | 165 | 20% | 11% | | 156 | | 5% |

Source: Maybank IBG Research, Company

Fig 6: DFS estimate revision

| USD m | New | | | Old | | | % change | | |
|-----------------------------------|-------|-------|-------|-------|-------|-------|----------|-------|-------|
| | 2024E | 2025E | 2026E | 2024F | 2025F | 2026F | 2024E | 2025E | 2026E |
| Digital financial services | | | | | | | | | |
| Revenues | 2,139 | 2,468 | 2,760 | 2,158 | 2,477 | 2,798 | -1% | 0% | -1% |
| Adjusted EBITDA | 634 | 747 | 860 | 639 | 749 | 870 | -1% | 0% | -1% |

Source: Company, Maybank IBG Research

Healthy balance sheet but limited room for capital management

Cash position remains healthy at USD9.0bn. While there remains a convertible notes of USD3bn, which could be paid off. Still, we see the company is in a strong cash position.

However, management noted that potential capital management is not a priority as it wants to keep the powder dry to tap growth opportunities besides sending a signal to its competitors on its ability to respond aggressively in the event of competitive escalation.

Raise estimates and TP to USD96 (up 7%)

Following strong 2Q delivery, we raise our revenue/Adj. EBITDA estimates for 2024-26 by 4-17% and raise our SoTP by 7% to USD96. The increase in our SoTP is on the back of the rise in our estimates while keeping our target multiples. BUY.

Fig 7: Earnings revision table

| USD m | New | | | Old | | | % change | | |
|--------------------|--------|--------|--------|--------|--------|--------|----------|-------|-------|
| | 2024E | 2025E | 2026E | 2024F | 2025F | 2026F | 2024E | 2025E | 2026E |
| Revenues | 16,011 | 18,708 | 20,700 | 15,391 | 17,496 | 19,556 | 4% | 7% | 6% |
| Adj EBITDA | 1,701 | 2,434 | 3,156 | 1,458 | 2,277 | 2,914 | 17% | 7% | 8% |
| Adj EBITDA margins | | | | | | | | | |
| NPAT | 705 | 1,537 | 2,193 | 671 | 1,436 | 2,002 | 5% | 7% | 10% |
| TP | | 96.0 | | | 90.0 | | | 7% | |

| USD m | New | | | Old | | | % change | | |
|-----------------------------------|--------|---------|---------|--------|---------|---------|----------|-------|-------|
| | 2024E | 2025E | 2026E | 2024F | 2025F | 2026F | 2024E | 2025E | 2026E |
| Ecommerce | | | | | | | | | |
| Revenues | 11,731 | 13,754 | 15,369 | 11,035 | 12,655 | 14,312 | 6% | 9% | 7% |
| Adjusted EBITDA | 93 | 755 | 1,449 | 57 | 743 | 1,389 | 62% | 2% | 4% |
| GMV | 97,161 | 110,603 | 121,897 | 94,146 | 105,724 | 117,864 | 3% | 5% | 3% |
| Digital Entertainment | | | | | | | | | |
| Bookings | 2,127 | 2,194 | 2,241 | 2,033 | 2,092 | 2,143 | 5% | 5% | 5% |
| Revenues | 2,014 | 2,337 | 2,403 | 2,082 | 2,231 | 2,295 | -3% | 5% | 5% |
| Adjusted EBITDA | 1,167 | 1,140 | 1,153 | 1,024 | 1,092 | 1,109 | 14% | 4% | 4% |
| Quarterly active users - m | 681 | 712 | 730 | 656 | 693 | 710 | 4% | 3% | 3% |
| Digital financial services | | | | | | | | | |
| Revenues | 2,139 | 2,468 | 2,760 | 2,158 | 2,477 | 2,798 | -1% | 0% | -1% |
| Adjusted EBITDA | 634 | 747 | 860 | 639 | 749 | 870 | -1% | 0% | -1% |

Source: Company data, Maybank IBG Research

Our Adj. EBITDA estimates are 10-14% ahead of the street and we expect the street to revise upward its estimates given the strong beat.

Fig 8: Maybank vs. street estimates

| USD m | Maybank | | | Street | | | % var | | |
|------------|---------|--------|--------|--------|--------|--------|-------|-------|-------|
| | 2024E | 2025E | 2026E | 2024E | 2025E | 2026E | 2024E | 2025E | 2026E |
| Revenues | 16,011 | 18,708 | 20,700 | 15,304 | 17,507 | 19,703 | 5% | 7% | 5% |
| Adj EBITDA | 1,701 | 2,434 | 3,156 | 1,492 | 2,151 | 2,880 | 14% | 13% | 10% |
| NPAT | 705 | 1,537 | 2,193 | 834 | 1,329 | 1,945 | -15% | 16% | 13% |

| USD m | Maybank | | | Street | | | % var | | |
|-----------------------------------|---------|---------|---------|--------|---------|---------|-------|-------|-------|
| | 2024E | 2025E | 2026E | 2024E | 2025E | 2026E | 2024E | 2025E | 2026E |
| Ecommerce | | | | | | | | | |
| Revenues | 11,731 | 13,754 | 15,369 | 11,053 | 12,717 | 14,340 | 6% | 8% | 7% |
| Adjusted EBITDA | 93 | 755 | 1,449 | 39 | 733 | 1,428 | 138% | 3% | 1% |
| GMV | 97,161 | 110,603 | 121,897 | 93,719 | 105,575 | 116,529 | 4% | 5% | 5% |
| Digital Entertainment | | | | | | | | | |
| Bookings | 2,127 | 2,194 | 2,241 | 2,012 | 2,082 | 2,127 | 6% | 5% | 5% |
| Revenues | 2,014 | 2,337 | 2,403 | 2,044 | 2,225 | 2,264 | -1% | 5% | 6% |
| Adjusted EBITDA | 1,167 | 1,140 | 1,153 | 1,046 | 1,067 | 1,099 | 12% | 7% | 5% |
| Quarterly active users - m | 681 | 712 | 730 | 599 | 622 | 635 | 14% | 15% | 15% |
| Digital financial services | | | | | | | | | |
| Revenues | 2,139 | 2,468 | 2,760 | 2,152 | 2,460 | 2,759 | -1% | 0% | 0% |
| Adjusted EBITDA | 634 | 747 | 860 | 642 | 813 | 945 | -1% | -8% | -9% |

Source: Company data, Maybank IBG Research

Fig 9: Sea SOTP valuation (USD m, except per share value)

| Business | Multiple | |
|----------------------------------|------------------|--|
| Ecommerce | EV/Sales | Comments |
| Target EV/Sales | 2.70x | Based on cluster analysis |
| FY25E Revenue | 13,754 | |
| Value of business | 37,135 | |
| Digital Entertainment | | |
| Approach #1 | DCF | |
| WACC | 8.1% | Assume a continuous deterioration in the revenues at the rate of -5% to -13% over 2025-35 with a 60% passthrough of deteriorating bookings on EBIT |
| LT growth | 0.0% | |
| Value of business | 5,036 | |
| Approach #1 | | |
| Approach #2 | EV/EBITDA | |
| Target EV/EBITDA | 5.0x | |
| FY25E EBITDA | 1,140 | |
| Value of business | 5,701 | |
| Approach #2 | | |
| Digital financial service | EV/EBITDA | |
| Target EV/EBITDA | 8.5x | |
| FY25E EBITDA | 747 | |
| Value of business | 6,351 | |
| Net cash | 5,232 | 1Q24 balance sheet. Includes ST investments |
| Equity value | 54,087 | |
| Number of shares (m) | 564 | |
| Value per share (USD) | 96 | |

Source: Company data, Maybank IBG Research

| FYE 31 Dec | FY22A | FY23A | FY24E | FY25E | FY26E |
|------------------------|-------|-------|-------|-------|-------|
| Key Metrics | | | | | |
| P/E (reported) (x) | nm | 121.3 | 61.1 | 28.7 | 20.5 |
| Core P/E (x) | nm | 85.8 | 61.1 | 28.7 | 20.5 |
| Core FD P/E (x) | nm | 88.8 | 62.2 | 28.5 | 20.0 |
| P/BV (x) | 5.1 | 3.5 | 5.5 | 4.5 | 3.5 |
| P/NTA (x) | 5.1 | 3.5 | 5.5 | 4.4 | 3.5 |
| Net dividend yield (%) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| FCF yield (%) | nm | 8.0 | 2.1 | 4.8 | 6.0 |
| EV/EBITDA (x) | nm | 29.6 | 34.9 | 20.8 | 14.8 |
| EV/EBIT (x) | nm | 67.6 | 54.7 | 26.7 | 18.0 |

INCOME STATEMENT (USD m)

| | | | | | |
|-----------------------------|-----------|----------|----------|----------|----------|
| Revenue | 12,449.7 | 13,063.6 | 16,011.2 | 18,707.9 | 20,699.5 |
| EBITDA | (704.2) | 783.5 | 1,210.6 | 1,980.5 | 2,662.0 |
| Depreciation | (428.3) | (440.8) | (437.6) | (439.0) | (467.9) |
| Amortisation | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| EBIT | (1,132.6) | 342.7 | 773.0 | 1,541.5 | 2,194.0 |
| Net interest income / (exp) | 70.1 | 290.2 | 310.1 | 320.6 | 331.5 |
| Associates & JV | 11.2 | (7.0) | (3.5) | (3.5) | (3.5) |
| Exceptionals | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other pretax income | (83.1) | (82.6) | (87.1) | 0.0 | 0.0 |
| Pretax profit | (1,134.4) | 543.2 | 992.5 | 1,858.7 | 2,522.0 |
| Income tax | (168.4) | (262.7) | (275.8) | (309.9) | (317.2) |
| Minorities | 6.4 | (12.0) | (12.0) | (12.0) | (12.0) |
| Discontinued operations | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Reported net profit | (1,296.5) | 268.6 | 704.7 | 1,536.8 | 2,192.9 |
| Core net profit | (1,296.5) | 268.6 | 704.7 | 1,536.8 | 2,192.9 |

BALANCE SHEET (USD m)

| | | | | | |
|-------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Cash & Short Term Investments | 7,579.4 | 4,221.4 | 5,076.4 | 7,166.7 | 9,845.4 |
| Accounts receivable | 268.8 | 262.7 | 614.1 | 768.8 | 850.7 |
| Inventory | 109.7 | 125.4 | 151.8 | 176.1 | 189.9 |
| Property, Plant & Equip (net) | 1,387.9 | 1,207.7 | 1,265.4 | 1,402.7 | 1,570.8 |
| Intangible assets | 65.0 | 50.8 | 65.8 | 80.8 | 95.8 |
| Investment in Associates & JVs | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other assets | 7,592.0 | 13,015.2 | 13,244.4 | 13,483.1 | 13,606.1 |
| Total assets | 17,002.8 | 18,883.2 | 20,418.0 | 23,078.2 | 26,158.7 |
| ST interest bearing debt | 88.4 | 146.7 | 146.7 | 146.7 | 146.7 |
| Accounts payable | 258.6 | 342.5 | 279.0 | 223.4 | 142.8 |
| LT interest bearing debt | 3,338.8 | 3,069.1 | 3,069.1 | 3,069.1 | 3,069.1 |
| Other liabilities | 7,506.0 | 8,627.0 | 8,934.0 | 9,505.0 | 9,806.0 |
| Total Liabilities | 11,192.0 | 12,185.6 | 12,428.9 | 12,944.1 | 13,164.4 |
| Shareholders Equity | 5,715.7 | 6,593.8 | 7,873.3 | 10,006.5 | 12,854.6 |
| Minority Interest | 95.1 | 103.8 | 115.7 | 127.7 | 139.6 |
| Total shareholder equity | 5,810.8 | 6,697.6 | 7,989.1 | 10,134.1 | 12,994.2 |
| Total liabilities and equity | 17,002.8 | 18,883.2 | 20,418.0 | 23,078.2 | 26,158.7 |

CASH FLOW (USD m)

| | | | | | |
|----------------------------------|-----------|-----------|-----------|---------|---------|
| Pretax profit | (1,134.4) | 543.2 | 992.5 | 1,858.7 | 2,522.0 |
| Depreciation & amortisation | 428.3 | 440.8 | 437.6 | 439.0 | 467.9 |
| Adj net interest (income)/exp | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Change in working capital | (1,275.0) | 359.5 | (367.3) | 94.0 | (1.8) |
| Cash taxes paid | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other operating cash flow | 925.4 | 736.1 | 302.5 | 289.9 | 341.6 |
| Cash flow from operations | (1,055.7) | 2,079.7 | 1,365.3 | 2,681.6 | 3,329.7 |
| Capex | (924.2) | (241.6) | (480.3) | (561.2) | (621.0) |
| Free cash flow | (1,979.9) | 1,838.1 | 885.0 | 2,120.3 | 2,708.7 |
| Dividends paid | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Equity raised / (purchased) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Change in Debt | (11.6) | 177.6 | 0.0 | 0.0 | 0.0 |
| Other invest/financing cash flow | (2,431.2) | (1,998.8) | (5,324.1) | 50.9 | 29.7 |
| Effect of exch rate changes | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net cash flow | (4,422.7) | 16.9 | (4,439.2) | 2,171.2 | 2,738.5 |

| FYE 31 Dec | FY22A | FY23A | FY24E | FY25E | FY26E |
|--|-----------|-----------|-----------|-----------|-----------|
| Key Ratios | | | | | |
| Growth ratios (%) | | | | | |
| Revenue growth | 25.1 | 4.9 | 22.6 | 16.8 | 10.6 |
| EBITDA growth | nm | nm | 54.5 | 63.6 | 34.4 |
| EBIT growth | nm | nm | 125.6 | 99.4 | 42.3 |
| Pretax growth | nm | nm | 82.7 | 87.3 | 35.7 |
| Reported net profit growth | nm | nm | 162.4 | 118.1 | 42.7 |
| Core net profit growth | nm | nm | 162.4 | 118.1 | 42.7 |
| Profitability ratios (%) | | | | | |
| EBITDA margin | nm | 6.0 | 7.6 | 10.6 | 12.9 |
| EBIT margin | nm | 2.6 | 4.8 | 8.2 | 10.6 |
| Pretax profit margin | nm | 4.2 | 6.2 | 9.9 | 12.2 |
| Payout ratio | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| DuPont analysis | | | | | |
| Net profit margin (%) | nm | 2.1 | 4.4 | 8.2 | 10.6 |
| Revenue/Assets (x) | 0.7 | 0.7 | 0.8 | 0.8 | 0.8 |
| Assets/Equity (x) | 3.0 | 2.9 | 2.6 | 2.3 | 2.0 |
| ROAE (%) | na | na | na | na | na |
| ROAA (%) | (7.3) | 1.5 | 3.6 | 7.1 | 8.9 |
| Liquidity & Efficiency | | | | | |
| Cash conversion cycle | 3.4 | (1.8) | 3.1 | 10.4 | 14.1 |
| Days receivable outstanding | 9.5 | 7.3 | 9.9 | 13.3 | 14.1 |
| Days inventory outstanding | 5.6 | 5.9 | 5.4 | 5.5 | 5.7 |
| Days payables outstanding | 11.7 | 15.0 | 12.1 | 8.5 | 5.8 |
| Dividend cover (x) | nm | nm | nm | nm | nm |
| Current ratio (x) | 1.8 | 1.4 | 1.6 | 1.8 | 2.0 |
| Leverage & Expense Analysis | | | | | |
| Asset/Liability (x) | 1.5 | 1.5 | 1.6 | 1.8 | 2.0 |
| Net gearing (%) (incl perps) | net cash | net cash | net cash | net cash | net cash |
| Net gearing (%) (excl. perps) | net cash | net cash | net cash | net cash | net cash |
| Net interest cover (x) | 16.2 | na | na | na | na |
| Debt/EBITDA (x) | nm | 4.1 | 2.7 | 1.6 | 1.2 |
| Capex/revenue (%) | 7.4 | 1.8 | 3.0 | 3.0 | 3.0 |
| Net debt/ (net cash) | (4,152.3) | (1,005.7) | (1,860.6) | (3,951.0) | (6,629.7) |

Source: Company; Maybank IBG Research

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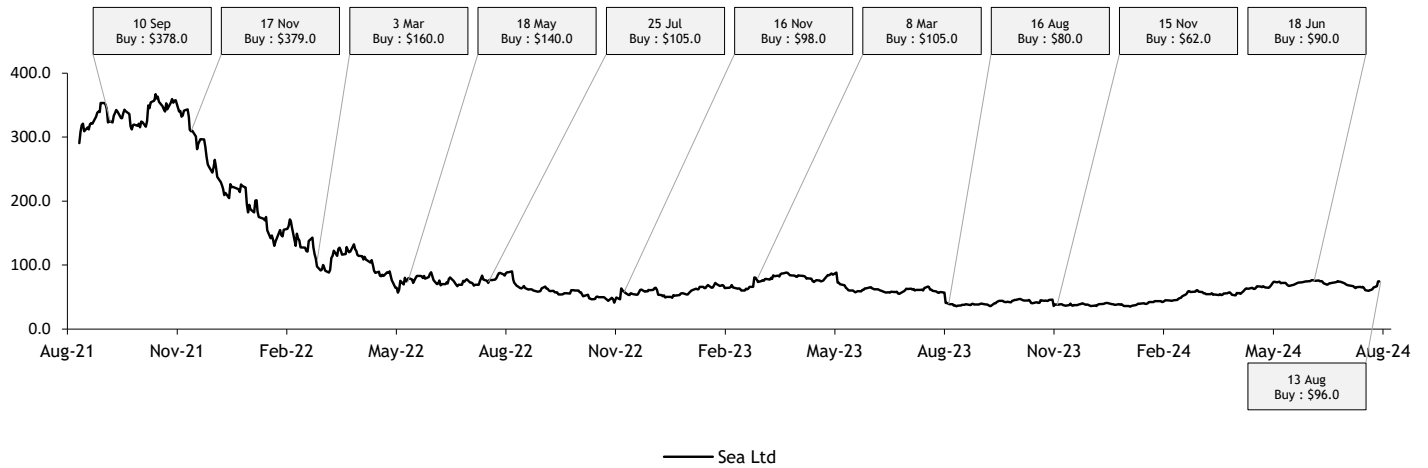
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Historical recommendations and target price: Sea Ltd (SE US)



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