

Sea Ltd (SE US)

New monetisation avenues to achieve margin targets sooner

Lift TP to USD110; Raise earnings est. by 2-9%

E-commerce competition remains benign, leading to monetisation initiatives such as seller take-rate increases (1-3%) and advertising growth, which in turn fast forwards margin improvement. We raise our 2030 e-commerce Adj. EBITDA to GMV margins to 2.7% by 2030 (from 1.9% previously). We think Shopee is comfortably positioned to exceed its long-term e-commerce Adj. EBITDA to GMV margins target of 2-3%. However, we think the company is likely to cap e-commerce margins to keep the space competitive to maintain its dominance and/or counter entry of aggressive new entrants. Absolute EBITDA though can expand, helped by elevated GMV growth momentum besides lifting growth of DFS business, which is highly tied to e-commerce, in our view. Raise TP to USD110 and reiterate BUY. MIBG Adj. EBITDA estimates are 10-14% above the Street.

Ad take-rate could rise to 3% of GMV from 1-2%

Advertising contributes only about 1-2% of Shopee's GMV. This compares to around 4% for the global peer average. As per emarketer, retail media is the fastest growing segment within the digital ads category at 23% CAGR and that growth momentum is expected to sustain in 2024-25. With the ASEAN internet currently in a steady state and with AI/tech help, advertising growth initiatives are on the rise. We estimate advertising take-rate to potentially rise to 3% of Shopee's GMV by 2028 (still 20% below current global average) driving 29% of our expected lift in EBITDA margin. This is on top of the organic growth and ongoing monetisation initiatives.

E-com Adj. EBITDA margin could be capped at 2-3% of GMV....

Shopee's recent seller take-rate increase, potential improvement in advertising and relatively stable costs suggest room for Adj. EBITDA margin expansion beyond management's long-term target of 2-3% of GMV. However, we think management is likely to keep margins capped at 2-3% of GMV while returning excess revenue lift in the form of vouchers, coins etc and an even better user experience in the form of faster delivery, cancellation and return policies. This is mainly to keep the operations nimble to thwart entry of new players and/or attack on Shopee's market share from existing players. This is reflected in initiatives like Shopee's recent YouTube partnership, which allows the former to narrow social commerce gap vs. TikTok, albeit at a slight margin leakage.

....facilitating larger-scale & deeper DFS penetration

While e-commerce margins could be capped by design, we think monetisation could indirectly come from a larger-than-expected shift from offline to online given Shopee's scale/efficiency creating economics for sellers and better experience for users. DFS can be leveraged to realise a part of e-commerce monetisation as: 1) DFS is a derivative of e-commerce and should grow alongside e-commerce; 2) DFS won't be the first area of attack from a competing e-commerce player; and 3) a pure-play fintech player won't have a similar ecosystem advantage as SEA. We raise our DFS revenue by 1-15% alongside increasing our e-commerce GMV.

| FYE Dec (USD m) | FY22A | FY23A | FY24E | FY25E | FY26E |
|------------------------------|----------|----------|----------|----------|----------|
| Revenue | 12,450 | 13,064 | 16,347 | 19,851 | 23,183 |
| EBITDA | (704) | 783 | 1,226 | 2,049 | 2,878 |
| Core net profit | (1,296) | 269 | 715 | 1,591 | 2,389 |
| Core FDEPS (cts) | (227.7) | 45.6 | 121.5 | 270.3 | 405.9 |
| Core FDEPS growth(%) | nm | nm | 166.3 | 122.4 | 50.2 |
| Net DPS (cts) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Core FD P/E (x) | nm | 88.8 | 78.4 | 35.2 | 23.5 |
| P/BV (x) | 5.1 | 3.5 | 7.0 | 5.7 | 4.4 |
| Net dividend yield (%) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| ROAA (%) | (7.3) | 1.5 | 3.6 | 7.2 | 9.4 |
| EV/EBITDA (x) | nm | 29.6 | 44.2 | 26.0 | 17.8 |
| Net gearing (%) (incl perps) | net cash | net cash | net cash | net cash | net cash |

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BUY

| | |
|-----------------------|-------------------|
| Share Price | USD 95.27 |
| 12m Price Target | USD 110.00 (+15%) |
| Previous Price Target | USD 96.00 |

Company Description

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

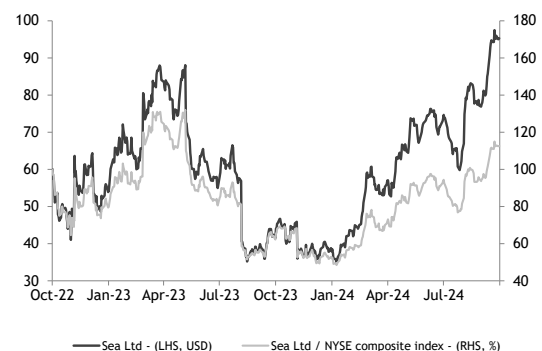
Statistics

| | |
|------------------------|-------------|
| 52w high/low (USD) | 97.49/34.82 |
| 3m avg turnover (USDm) | 63.4 |
| Free float (%) | 98.7 |
| Issued shares (m) | 564 |
| Market capitalisation | USD53.7B |
| | USD53.7B |

Major shareholders:

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

Price Performance



| | -1M | -3M | -12M |
|-----------------------|-----|-----|------|
| Absolute (%) | 24 | 30 | 130 |
| Relative to index (%) | 20 | 20 | 81 |

Source: FactSet

Abbreviations in this report

GMV - Gross market value
 BNPL - Buy now pay later
 DFS - Digital financial services
 CPC - Cost per click
 CPM - Cost per mille

Companies referred in the note

Kaspi (KSPI US, CP USD103.7, Not Rated)
 Amazon (AMZN US, CP USD180.8, Not Rated)
 Etsy (ETSY US, CP USD51.2, Not Rated)
 Mercadolibre (MELI US, CP USD196.2, Not Rated)
 Allegro (ALE PW, CP PLN34.1, Not Rated)
 Coupang (CPNG US, CP USD25.8, Not Rated)
 eBay (EBAY US, CP USD66.8, Not Rated)
 PDD (PDD US, CP USD153.1, Not Rated)
 Alibaba (BABA US, CP USD117.5, Not Rated)
 Mercari (4385 JT, CP JPY2510, Not Rated)
 JD.com (JD US, CP USD47.1, Not Rated)
 Walmart (WMT US, CP USD79.1, Not Rated)
 Rakuten (4755 JT, CP JPY913.3, Not Rated)
 FSN Ecomm (NYKAA IN, CP INR193.6, Not Rated)
 Alphabet (GOOGL US, CP USD163.0, Not Rated)
 Meta (META US, CP USD584.8, Not Rated)
 Microsoft (MSFT US, CP USD409.5, Not Rated)
 Tiktok (Not Listed)

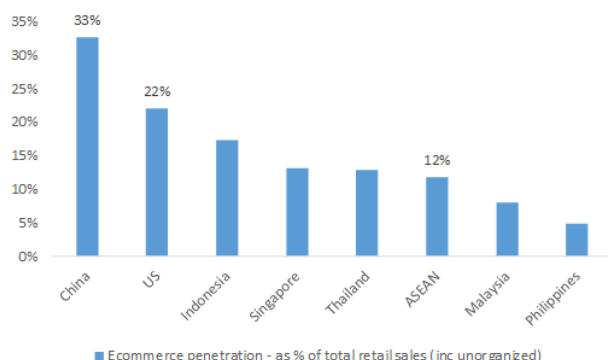
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Tear Sheet Insert

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

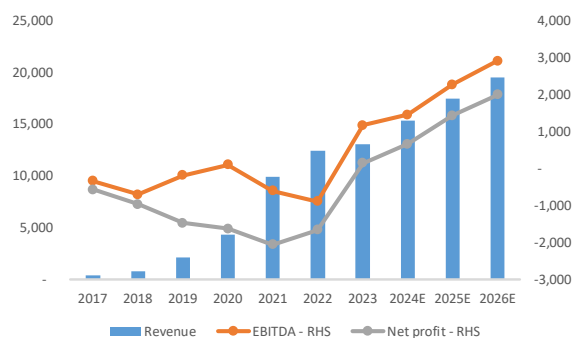


Source: Euromonitor

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 USD8.6be.

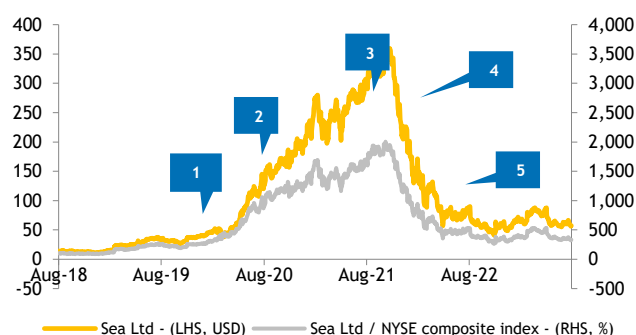
Revenue, EBITDA and net profit projections (USD m)



Source: Company

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.

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 reports |

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 TikTok). 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 unauthorised 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, 44% 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 10 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).

| Qualitative Parameters (Score: 33) |
|--|
| a) Is there an ESG policy in place and is there a standalone ESG committee or is it part of the risk committee? <i>The company has various policies covering different aspects of ESG. There are KPIs, business objectives, governance enablers and risks for each of the segments.</i> |
| b) Is the senior management salary linked to fulfilling ESG targets? <i>No</i> |
| c) Does the company follow the task force of climate related disclosures (TCFD) framework for ESG reporting? <i>Yes</i> |
| e) Does the company have a mechanism to capture Scope 3 emissions - which parameters are captured? <i>No</i> |
| f) What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company? <i>The company has initiated various measures to manage waste and carbon emission, such as the Energy Efficiency Programme and the Unilever Green Delivery Project.</i> |
| g) Does carbon offset form part of the net zero/carbon neutrality target of the company? <i>Yes</i> |

| ESG score | Weights | Scores | Final Score |
|--------------|---------|--------|-------------|
| Quantitative | 50% | 58 | 29 |
| Qualitative | 25% | 33 | 8 |
| Target | 25% | 0 | 0 |
| Total | | | 37 |

As per our ESG assessment, Sea has established sustainability policies but there are no time-based targets set for the period. Its quantitative disclosures on 'E' parameters on emissions, resource usage as well as 'S' parameters on workforce and management diversity are limited. Sea's overall ESG score is 37, which makes its ESG rating below average in our view (average ESG rating = 50).

1. Raise TP factoring in elevated e-commerce GMV growth and higher monetisation

We raise our group Adj. EBITDA estimates by 2-9% for FY24-26E: This factors in:

- Higher Shopee GMV growth assumption by 2-7% and take-rate increase by 0.1-0.7ppt, helped by benign competition, recent take-rate increases and a bigger contribution from advertising revenues.
- Increase in our Shopee Adj. EBITDA estimates by 36-59% as we see an elevated pace to Adj. EBITDA/GMV improvement from the trickling down effect of GMV growth and higher take rates
- 1-14% increase in our DFS Adj. EBITDA estimates as we see the business growth helped by the elevated Shopee GMV momentum.

Fig 1: Summary of Sea Ltd. estimates revisions

| Group (USD m) | New | | | Old | | | % change | | |
|--------------------|--------|--------|--------|--------|--------|--------|----------|-------|-------|
| | 2024E | 2025E | 2026E | 2024F | 2025F | 2026F | 2024E | 2025E | 2026E |
| Revenues | 16,347 | 19,851 | 23,183 | 16,011 | 18,708 | 20,700 | 2% | 6% | 12% |
| Adj EBITDA | 1,729 | 2,539 | 3,450 | 1,701 | 2,434 | 3,156 | 2% | 4% | 9% |
| Adj EBITDA margins | | | | | | | | | |
| NPAT | 715 | 1,591 | 2,389 | 705 | 1,537 | 2,193 | 2% | 4% | 9% |
| TP | | 110.0 | | | 96.0 | | | 15% | |

| Segmental (USD m) | New | | | Old | | | % change | | |
|-----------------------------------|--------|---------|---------|--------|---------|---------|----------|-------|-------|
| | 2024E | 2025E | 2026E | 2024F | 2025F | 2026F | 2024E | 2025E | 2026E |
| Ecommerce | | | | | | | | | |
| GMV | 98,789 | 114,873 | 130,923 | 97,161 | 110,603 | 121,897 | 2% | 4% | 7% |
| Revenues | 12,035 | 14,662 | 17,424 | 11,731 | 13,754 | 15,369 | 3% | 7% | 13% |
| Take rate (GAAP) | 12.2% | 12.8% | 13.3% | 12.1% | 12.4% | 12.6% | | | |
| Adjusted EBITDA | 148 | 1,079 | 1,969 | 93 | 755 | 1,449 | 59% | 43% | 36% |
| Adj EBITDA/GMV | 0.1% | 0.9% | 1.5% | 0.1% | 0.7% | 1.2% | | | |
| Digital Entertainment | | | | | | | | | |
| Bookings | 2,127 | 2,194 | 2,241 | 2,127 | 2,194 | 2,241 | 0% | 0% | 0% |
| Revenues | 2,014 | 2,337 | 2,403 | 2,014 | 2,337 | 2,403 | 0% | 0% | 0% |
| Adjusted EBITDA | 1,167 | 1,140 | 1,154 | 1,167 | 1,140 | 1,153 | 0% | 0% | 0% |
| Quarterly active users - m | 681 | 712 | 730 | 681 | 712 | 730 | 0% | 0% | 0% |
| Digital financial services | | | | | | | | | |
| Revenues | 2,168 | 2,694 | 3,167 | 2,139 | 2,468 | 2,760 | 1% | 9% | 15% |
| Adjusted EBITDA | 642 | 811 | 979 | 634 | 747 | 860 | 1% | 8% | 14% |

Source: Maybank IBG Research

We raise our SoTP-based TP from USD96 to USD110. We apply a higher target EV/sales for the e-commerce business from 2.7x to 3.0x to factor in our view of a sustained elevated GMV growth and superior monetisation. We trim the WACC in our Digital Entertainment business DCF from 8.1% to 7.6% by factoring in the recent decline in interest rates. We also apply a higher target EV/EBITDA multiple for the DFS business from 8.5x to 9.0x.

Fig 2: Sea Ltd. SoTP

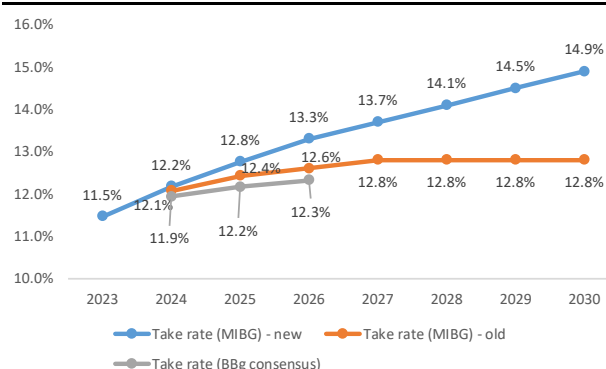
| Business | New | Old | Multiple |
|-----------------------------------|------------------|------------------|--|
| Ecommerce | EV/Sales | EV/Sales | Comments |
| Target EV/Sales | 3.0x | 2.7x | Based on cluster analysis |
| FY25E Revenue | 14,662 | 13,754 | |
| Value of business | 43,618 | 37,135 | |
| Digital Entertainment | | | |
| Approach #1 | DCF | DCF | |
| WACC | 7.6% | 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% | 0.0% | |
| Value of business | 5,107 | 5,036 | |
| Approach #1 | | | |
| Approach #2 | EV/EBITDA | EV/EBITDA | |
| Target EV/EBITDA | 5.0x | 5.0x | |
| FY25E EBITDA | 1,140 | 1,140 | |
| Value of business | 5,758 | 5,701 | |
| Approach #2 | | | |
| Digital financial services | EV/EBITDA | EV/EBITDA | |
| Target EV/EBITDA | 9.0x | 8.5x | |
| FY25E EBITDA | 811 | 747 | |
| Value of business | 7,331 | 6,351 | |
| Net cash | 5,632 | 5,232 | 2Q24 balance sheet. Includes ST investments |
| Equity value | 62,015 | 54,087 | - |
| Number of shares (m) | 564 | 564 | - |
| Value per share (USD) | 110 | 96 | - |

Source: Maybank IBG Research

Take rate improvements should sustain - Advertising to be the next leg of growth

Shopee's recent increase in seller take-rates by 1-3% should help in the e-commerce take rate improvements in 2H24. While we think further seller take-rate increases would be slow, the next leg of take-rate increases could be driven by advertising-led initiatives. Shopee's advertising revenues as a % of GMV is below 2% vs 3-10% for more evolved peers in the US, China and Europe. Factoring in the recent seller take-rate increases and a higher contribution from advertising revenues (discussed in detail in the next section), we expect the blended group take-rate to increase from 11.5% in 2023 to 13.3% by 2026 (vs. our previous estimates of 12.6%). MIBG take rate estimates are 1ppt higher vs street expectations for 2026.

Fig 3: Take rate expectations



Source: Maybank IBG Research, Bloomberg

Fig 4: Shopee's recent increase in take-rates

| Market | Commission rate | | Aug-24 | ppt increase effective from | |
|-------------|-----------------------|-----------------------|-----------------------|-----------------------------|--------|
| | Late-early 2023 | Early-mid 2024 | | | |
| Indonesia | 1.25-3.2% + Rp1000 | 3.5-6.5% + Rp1000 | 4.25-8.0% | 2.3-3.3ppt | Sep-24 |
| Malaysia | 2.5-4.0% | 4.0-8.0% | 7.0-11.0% | 3.0ppt | Aug-24 |
| Philippines | 2.24% transaction fee | 2.24% transaction fee | 2.24% transaction fee | 2.0ppt | Jul-24 |
| Singapore | 2.0% transaction fee | 2.0% transaction fee | 2.0% transaction fee | 1.5-3.0ppt | Sep-24 |
| Thailand | 3.00% transaction fee | 3.0% transaction fee | 2.24% transaction fee | 0-2.0ppt | Jul-24 |
| Vietnam | 4.00% transaction fee | 4.00% transaction fee | 4.0% transaction fee | 1.0ppt | Jul-24 |

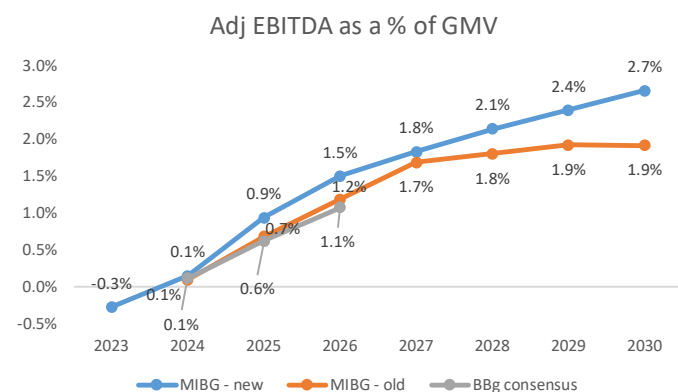
Source: Maybank IBG Research, Company

Stage set for Shopee to meet its 2-3% Adj. EBITDA margin target

Factoring in recent increase in seller take-rates, sustained benign competition and potential increase in advertising take rate, we increase our 2025-26 Adj. EBITDA/GMV assumption by 0.2-0.3ppt. We expect Shopee advertising take rate as a % of GMV to increase from 1-2% in 2024 to around 3% by 2030 (discussed in detail in the next section). Our Adj. EBITDA margins as % of GMV is 0.3-0.4ppt ahead of street estimates for 2025-26.

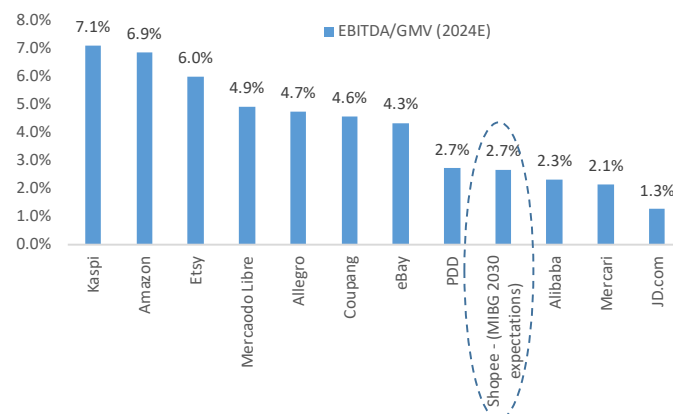
Over the long term, we raise our Adj. EBITDA margins target to 2.7% by 2030, which is at the higher end of management's guidance of 2-3%. Our long-term Adj. EBITDA margins at 2.7% of GMV with a 14.9% take-rate is still below global averages wherein companies are achieving around 5% EBITDA/GMV with ~18% take-rates.

Fig 5: Adj. EBITDA margins as % of GMV expectations



Source: Maybank IBG Research, company, Bloomberg

Fig 6: Our 2030 Shopee's EBITDA/GMV expectations still on the lower side of global average



Source: Maybank IBG Research, Bloomberg

Would Shopee breach 2-3% LT Adj. EBITDA margins target? Not in our view.

The recent increase in seller take rate (1-3ppt) and a potential 1-2ppt increase in advertising take rate suggest a 2-5ppt increase in e-commerce take rate. With still some room for seller take-rate increases and cost optimisation such as sales and marketing, one can argue that Shopee can easily exceed its long-term e-commerce EBITDA/GMV target of 2-3%. As discussed in the section above, e-commerce peers are operating at a higher EBITDA/GMV despite at a smaller scale vs. Shopee.

While there is room for Shopee to comfortably breach the targeted 2-3% Adj. EBITDA/GMV margins, we think the company will continue to reinvest the excess proceeds and operate within the targeted margins. This is to:

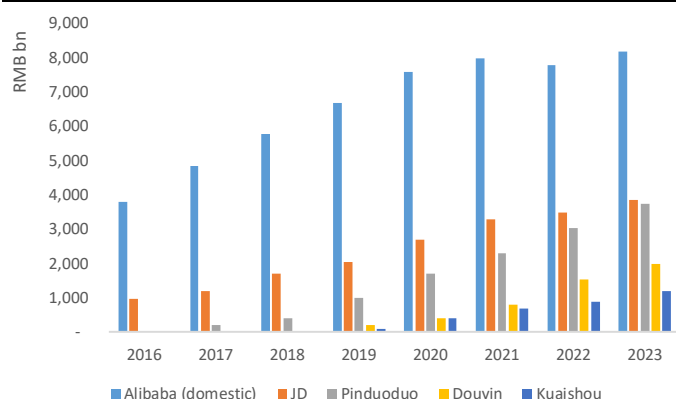
- Maintain its dominance in the e-com space by keeping its services highly competitive. This is to fend off its challenger becoming aggressive or from the potential entry of an aggressive new entrant (speculation rife of potential Temu entry in Indonesia). We see Shopee's recent partnership with Youtube in that light wherein Shopee may part a bit of commission revenues with YouTube but in turn narrow gap vs. TikTok's social e-commerce edge (discussed in detail in the later section).
- Drive a bigger and faster offline to online transition by keeping the offerings competitive both for buyers and sellers.

Areas where the company may continue to invest includes deepening logistics infrastructure such that it can reach out to consumers in the tier 3-4 cities, keep pricing of products competitive, enhance customer experience such as live streaming, and quick deliveries etc.

We think learning from China and the US is at play here - Alibaba's dominance challenged by PDD/TikTok and Amazon's dominance being challenged by Temu and TikTok.

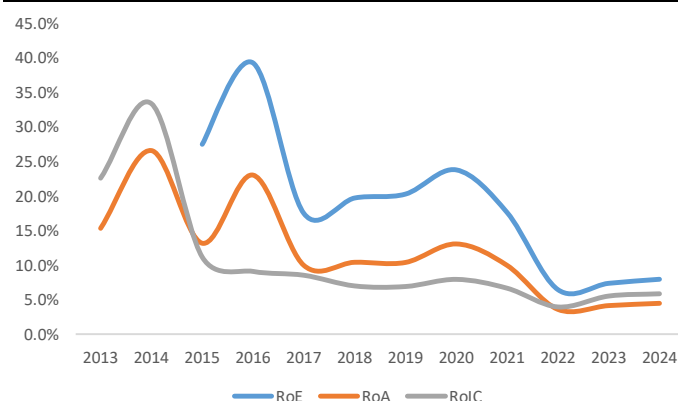
Alibaba case study. Alibaba-owned Taobao's strong emphasis on branded products (Tmall) and consumer-to-consumer (C2C) sales and slowing growth of e-commerce in China created a vacuum for entry of aggressive new players like Pinduoduo (PDD) and TikTok Shop. Alibaba's consumer-to-consumer (C2C) sales model often led to a marketplace dominated by individual sellers, which sometimes resulted in a lack of price competitiveness and higher prices on Taobao, as sellers often factor in fees and costs associated with the platform. PDD capitalised on this by offering group buying deals and discounts, appealing to price-sensitive consumers. Pinduoduo's emphasis on affordable, unbranded products - partnering directly with millions of factories - has propelled it to become the second most popular e-commerce platform in China.

Fig 7: China GMV growth by players - Alibaba (domestic) GMV slowing and losing share to PDD and Douyin



Source: Maybank IBG Research, Bloomberg, Company

Fig 8: Alibaba's high profitability ratios took hit with e-com slowdown in china and the entry of aggressive new players



Source: Maybank IBG Research, Bloomberg

If e-com Adj. EBITDA margins is capped, where else can SE monetise?

We think SE may keep the Shopee margins capped at 2-3% of GMV for competitive reasons. Although e-commerce margins may remain capped by design, we think there are two other avenues through which SE can generate value/monetisation:

- 1) Growing the e-commerce GMV by targeting offline users to move to online. ASEAN e-commerce penetration at just 12% still leaves a long runway for growth. By keeping the prices low (ala PDD in China), making unit economics viable for low ticket products and improving user experience (quicker deliveries, live streaming), we think Shopee can continue to transition consumers from offline to online at an elevated pace. By expanding the e-com/GMV base, absolute EBITDA could rise while the margins remain at 2-3%. By this the market remains highly competitive to fend off new entrants while monetisation would ensue in the form of higher absolute EBITDA rather than margin expansion. Management did note post the 2Q results call that e-commerce Adj. EBITDA improvement is a matter of choice (as they see opportunity to grow GMV and take market share) and not market condition.
- 2) Digital financial services (DFS) is closely tied to the e-commerce business, in our view. SpayLater, as a buy now, pay later (BNPL) service, allows Shopee customers to make purchases and defer payments, enhancing the shopping experience on the platform. We see DFS growth as a derivative of e-commerce business as such remain shielded from an aggressive new-entrant who have to first compete with Shopee on the e-commerce metrics (seller take-rate, logistics,

pricing etc). We revise up our DFS revenue and Adj. EBITDA estimates by 1-14% as we raise our e-commerce GMV growth expectations.

Fig 9: e-commerce penetration rate - ASEAN at the lower end



Source: Maybank IBG Research, Google, Temasek and Bain, Statista, Euromonitor

Fig 10: Digital financial services growth expectations

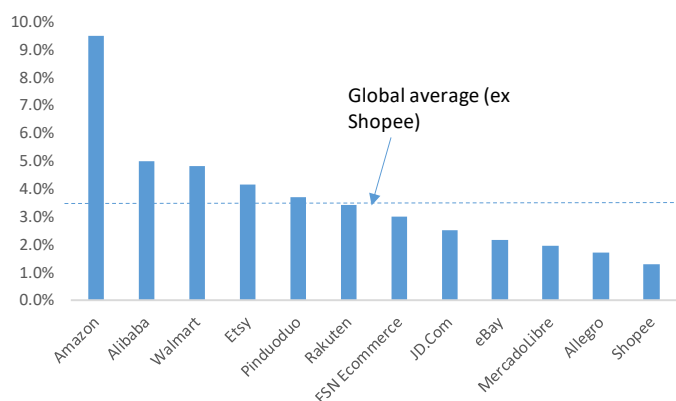


Source: Maybank IBG Research, Company

2. Advertising to be the next monetisation avenue

With competition relatively stable and large take-rate increases already being enacted, we see advertising led take-rate improvement is the next thrust area for Shopee. Amazon leads the e-commerce peers in advertising contribution at ~10% of GMV whereas the global average (ex Shopee) is 3.8%. Shopee is under indexed on advertising spending at less than 2% of GMV. We see this as a relatively low hanging fruit to monetize and should help to keep the e-commerce revenue momentum ahead of GMV growth.

Fig 11: Global comparison of advertising contribution to global e-commerce companies



Source: Maybank IBG Research, Company data

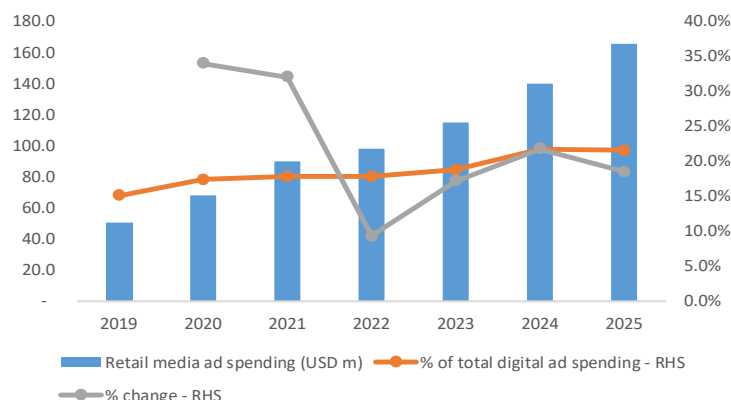
We estimate Shopee Ad revenues to grow from an estimated 1.5% of GMV in 2024E to 3% by 2028E (still at 20% below the current global average which also is growing at a faster clip). This helps to lessen the reliance on seller take-rate increases as a means to improve margins and helps to pull forward the Adj. EBITDA growth/margin target.

What is retail media? Retail media refers to advertising that takes place on retail platforms, allowing brands to promote their products directly to consumers at the point of purchase. This form of advertising leverages the data and insights retailers have about their customers to deliver targeted,

relevant ads. Essentially, retail media integrates advertising with the shopping experience, providing a powerful tool for brands to engage consumers and drive sales within retail environments.

Retail media is the fastest growing segment within the overall and digital ad-spend. According to emarketer, retail media ad spending had been growing at 23% CAGR and that growth momentum is expected to sustain in 2024-25. As a % total digital ad-spend (which includes search and video-ads etc), it has grown from 15% in 2019 to 19% in 2023 and is expected to reach 22% by 2025.

Fig 12: Retail media spending worldwide



Source: Maybank IBG Research, emarketer

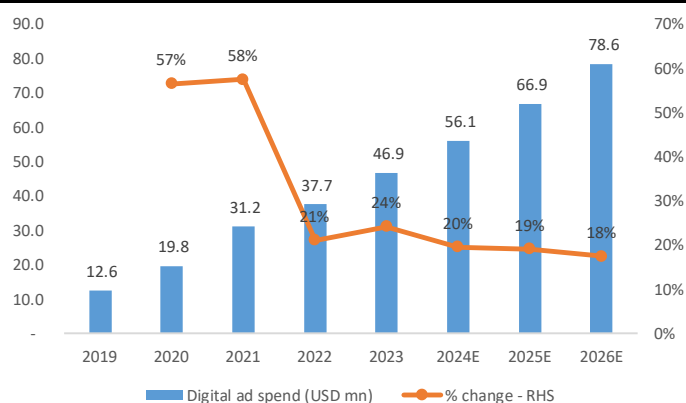
e-commerce is a significant driver for retail media. More and more consumers are turning to websites and online retailers for their everyday purchases, which gives significant leverage to multichannel retailers like Target, Walmart and Amazon. An increase in site visits leads to more ads being served, which in turn boosts ad impressions and generates additional transactions. These transactions provide valuable data for retail networks, allowing for more effective ad targeting. Improved targeting enhances relationships between advertisers and retail media networks, encouraging advertisers to invest more in these platforms.

Learning from various markets

Amazon is the poster boy wherein ad contributes ~10% of its GWV. That said, 3-5% ad contribution to revenues is not uncommon among the e-commerce platforms globally.

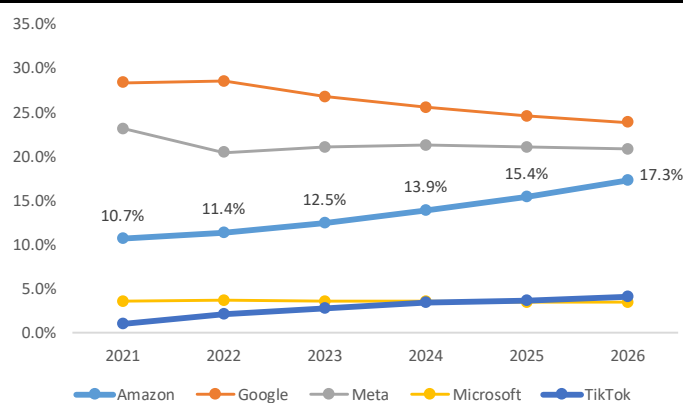
Amazon. Amazon ad revenues increased at a healthy pace of 39% CAGR over 2019-23. As a % of its GMV, ad revenues is estimated at ~10%, which is the highest globally. According to Emarketer, Amazon's share within US digital ad spending has increased from 10.7% in 2021 to 12.5% in 2023 and is forecasted to grow to 17.3% by 2026 - challenging Google and Meta's duopoly.

Fig 13: Amazon advertising revenue growth



Source: Maybank IBG Research, Company, Bloomberg

Fig 14: US: market share of digital ad spending by companies

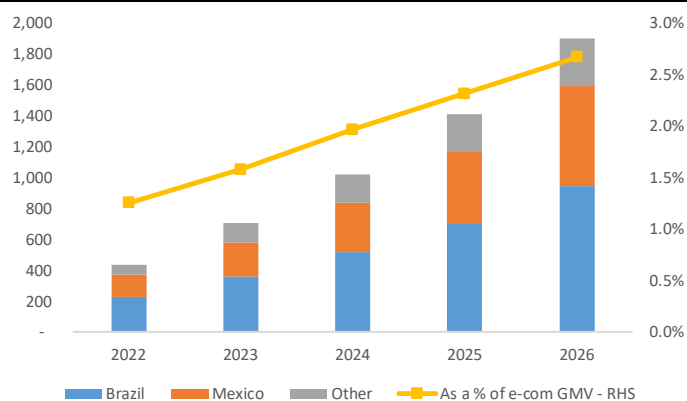


Source: Maybank IBG Research, emarketer

Alibaba. Unlike Amazon, where sellers are typically charged a commission per sale plus additional fees for ads, Alibaba's Taobao and Tmall platforms have a more "pay-to-play" model. Alimama is the advertising and marketing platform within Alibaba that allows sellers to purchase various advertising products, from search keyword bids to display ads across Alibaba's ecosystem (Taobao, Tmall, Youku, and external websites). Sellers pay CPC (for clicks) and CPM (for impressions) to have their products promoted across Alibaba's ecosystem. We estimate advertising is the key revenue driver, contributing ~5% of Alibaba's e-commerce GMV.

Mercado Libre. According to emarketer, retail media ad spending in Latin America is set to triple from 2024 to 2028, with Mercado Libre projected to become a USD1b player in digital advertising this year. This marks more than a doubling of the digital ad revenue the company generated in 2022. By 2026, emarketer anticipates Mercado Libre's digital ad revenues to nearly double again, reaching USD1.90b.

Fig 15: Emarketer projections of Mercado Libre's advertising revenues (USD m)



Source: Maybank IBG Research, emarketer

Refer to Appendix I on how Shopee Advertising works

3. YouTube partnership helps to narrow TikTok's edge

YouTube and Shopee announced on 18 Sept 2024 that they are launching an online shopping service in Indonesia, with plans to expand to Thailand and Vietnam soon. This collaboration will allow users to purchase products featured in YouTube videos via links to Shopee. YouTube Shopping is already operational in South Korea and the US. This partnership positions YouTube Shopping against TikTok, which has ramped up its e-commerce efforts in Southeast Asia, particularly after acquiring Indonesia's major platform, Tokopedia.

3.1 What sets TikTok Shop apart from other e-commerce platforms?

TikTok Shop represents an evolution in e-commerce by merging social media engagement with shopping. This unique integration encourages impulse purchases, enhances product discovery and makes purchasing more convenient. Unlike traditional e-commerce platforms, TikTok Shop allows users to browse and buy without leaving the app, creating a seamless, immersive shopping experience.

The platform effectively combines entertainment with commerce, leveraging user-generated content and influencer marketing to promote products. This content-driven approach encourages impulse purchases and trend-driven sales, as users often encounter products through entertaining videos rather than traditional ads.

3.2 YouTube Shopping is similar to TikTok Shop

YouTube Shopping operates by collaborating with e-commerce platforms such as Shopify and Coupang by effectively harnessing the power of video content and social influence to drive impulse buying among its users. This integration enables creators and brands to link their online stores to their YouTube channels showcasing their products within videos, live streams, or on product shelves below the video player. When creators highlight products in their videos, they can tag them, making them shoppable links that appear right below the video.

How YouTube Shopping will help Shopee?

YouTube Shopping partnership positions Shopee to enhance its marketing strategies and drive sales through innovative content-driven e-commerce:

Increased visibility: By integrating with YouTube, Shopee can showcase its products to a vast audience, leveraging the platform's extensive user base to attract new customers.

Enhanced engagement: Creators can promote Shopee products through engaging video content, making it easier to capture viewers' interest and drive them to make purchases.

Seamless shopping experience: With shoppable links in videos, viewers can quickly transition from watching content to shopping, reducing friction in the purchasing process.

Sea Ltd. - MIBG vs Street estimates

Fig 16: Sea Ltd. - MIBG vs Street estimates

| USD m | Maybank | | | Street | | | % var | | |
|------------|---------|--------|--------|--------|--------|--------|-------|-------|-------|
| | 2024E | 2025E | 2026E | 2024E | 2025E | 2026E | 2024E | 2025E | 2026E |
| Revenues | 16,347 | 19,851 | 23,183 | 15,823 | 18,412 | 20,658 | 3% | 8% | 12% |
| Adj EBITDA | 1,729 | 2,539 | 3,450 | 1,522 | 2,303 | 3,071 | 14% | 10% | 12% |
| NPAT | 715 | 1,591 | 2,389 | 800 | 1,507 | 2,100 | -11% | 6% | 14% |

| USD m | Maybank | | | Street | | | % var | | |
|-----------------------------------|---------|---------|---------|--------|---------|---------|-------|-------|-------|
| | 2024E | 2025E | 2026E | 2024E | 2025E | 2026E | 2024E | 2025E | 2026E |
| Ecommerce | | | | | | | | | |
| GMV | 98,789 | 114,873 | 130,923 | 97,766 | 112,767 | 125,299 | 1% | 2% | 4% |
| Revenues | 12,035 | 14,662 | 17,424 | 11,678 | 13,722 | 15,442 | 3% | 7% | 13% |
| Adjusted EBITDA | 148 | 1,079 | 1,969 | 114 | 704 | 1,347 | 30% | 53% | 46% |
| Adj EBITDA/GMV | 0.1% | 0.9% | 1.5% | 0.1% | 0.6% | 1.1% | | | |
| Digital Entertainment | | | | | | | | | |
| Bookings | 2,127 | 2,194 | 2,241 | 2,169 | 2,278 | 2,355 | -2% | -4% | -5% |
| Revenues | 2,014 | 2,337 | 2,403 | 1,953 | 2,227 | 2,334 | 3% | 5% | 3% |
| Adjusted EBITDA | 1,167 | 1,140 | 1,154 | 1,143 | 1,152 | 1,159 | 2% | -1% | 0% |
| Quarterly active users - m | 681 | 712 | 730 | 621 | 646 | 661 | 10% | 10% | 10% |
| Digital financial services | | | | | | | | | |
| Revenues | 2,168 | 2,694 | 3,167 | 2,109 | 2,443 | 2,737 | 3% | 10% | 16% |
| Adjusted EBITDA | 642 | 811 | 979 | 647 | 793 | 885 | -1% | 2% | 11% |

Source: Maybank IBG Research, Bloomberg

Valuation comps

Fig 17: Global e-commerce valuation comps

| Company | BBG Code | Market Cap USDm | EV/GMV (x) | | GMV CAGR 2023-26F | EV/GMV | EV/Sales (x) | | Sales CAGR 2023-26F | EVSG | EV /EBITDA (x) | |
|------------------|----------|-----------------|------------|------|-------------------|--------|--------------|------|---------------------|-------|----------------|------|
| | | | FY1 | FY2 | | | FY1 | FY2 | | | FY1 | FY2 |
| Sea* | SE US | 54,458 | 0.48 | 0.40 | 19% | 4.0 | 3.43 | 2.94 | 14% | 23.8 | 34.7 | 22.3 |
| GoTo* | GOTO IJ | 4,678 | 0.24 | 0.23 | 7% | 3.7 | 0.00 | 0.00 | 12% | 0.0 | 0.0 | 0.0 |
| Bukalapak | BUKA IJ | 935 | nm | nm | 5% | nm | 0.00 | 0.00 | 14% | 0.0 | 0.0 | 0.0 |
| Nykaa | NYKAA IN | 6,605 | 3.55 | 2.83 | 25% | 14.0 | 6.91 | 5.43 | 27% | 25.9 | 102.9 | 65.0 |
| Mercado Libre* | MELI US | 99,531 | 1.07 | 0.90 | 17% | 6.4 | 4.72 | 3.73 | 28% | 16.9 | 28.1 | 20.8 |
| Amazon* | AMZN US | 1,897,598 | 0.97 | 0.89 | 8% | 11.8 | 3.07 | 2.81 | 11% | 28.4 | 14.7 | 12.9 |
| Ebay | EBAY US | 32,651 | 0.49 | 0.47 | 2% | 24.5 | 3.49 | 3.33 | 3% | 109.6 | 11.2 | 10.5 |
| Etsy | ETSY US | 5,874 | 0.55 | 0.52 | 2% | 30.4 | 2.53 | 2.33 | 4% | 58.1 | 9.2 | 8.5 |
| Alibaba* | BABA US | 282,028 | 0.22 | 0.20 | 4% | 5.1 | 1.85 | 1.64 | 8% | 23.7 | 9.6 | 8.3 |
| JD | JD US | 76,278 | 0.13 | 0.13 | 5% | 2.4 | 0.45 | 0.44 | 5% | 8.5 | 10.5 | 9.3 |
| PDD | PDD US | 212,607 | 0.26 | 0.20 | 13% | 1.9 | 3.06 | 2.07 | 35% | 8.6 | 10.3 | 7.2 |
| Rakuten | 4755 JT | 13,300 | na | na | na | na | 0.91 | 0.89 | 9% | 10.6 | 8.4 | 6.3 |
| Allegro | ALE PW | 10,201 | 0.62 | 0.51 | 12% | 5.3 | 3.43 | 2.90 | 12% | 28.6 | 12.7 | 10.2 |
| Vipshop | VIPS US | 8,715 | 1.34 | 1.12 | 3% | 48.9 | 0.37 | 0.31 | -1% | 64.0 | 3.8 | 3.2 |
| Coupang | CPNG US | 40,659 | na | na | na | na | 1.38 | 1.14 | 18% | 7.5 | 32.0 | 18.7 |
| Ocado | OCDO LN | 3,812 | na | na | na | na | 1.46 | 1.52 | 9% | 16.2 | 31.7 | 20.7 |
| Weighted average | | | 0.80 | 0.73 | 8% | 9.90 | 2.90 | 2.56 | 13% | 25.6 | 14.9 | 12.5 |

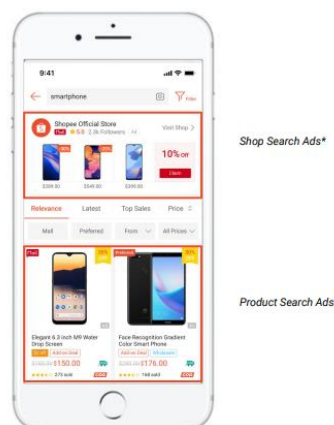
* Adjusted for e-commerce business. Source: Maybank IBG Research, Bloomberg

Appendix I

How Shopee ads work?

1. **Search ads.** Bid for keywords, and an ad will appear on the search results page when shoppers search using those keywords.

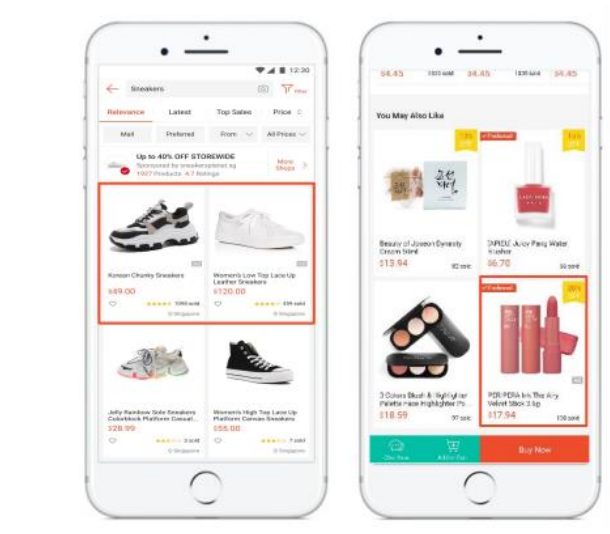
Fig 18: Examples of Shopee Search Ads



Source: Maybank IBG Research, Shopee

2. **Discovery ads.** These target relevant audiences who are interested in similar or related products at high-traffic locations, including:
 - The 'You May Also Like' section on product detail pages of products similar or complementary, buyers' purchase-related pages and their order-related pages
 - Daily Discover section on the homepage and in Shopee games
3. **Boost ads.** These increase products' exposure in multiple high-traffic areas at once. With Boost ads, Shopee automatically optimises ads to maximise sales. Boost ads appear on search results pages, product detail pages of products similar or related, buyers' purchase-related and order-related pages, Shopee games, as well as Shopee's homepage.
4. **Display ads.** These boost awareness to products and shops, with visually appealing creatives displayed in one of the in-app spots with the highest exposure. Display ads appear on slots #9, #10, #12 and #13 of the Homepage banner carousel, at the top of Shopee's homepage, or in Daily Discover as part of the new homepage design.

Fig 19: Examples of Shopee boost ads



Source: Maybank IBG Research, Shopee

Fig 20: Examples of Shopee display ads



Source: Maybank IBG Research, Shopee

- 5. **Live ads.** The ads boost visibility and product sales by appearing in prominent positions on ShopeeLive’s landing page, Discover and For You pages.

Fig 21: Examples of Shopee Live ads



(Shopee Live)

Source: Maybank IBG Research, Shopee

| FYE 31 Dec | FY22A | FY23A | FY24E | FY25E | FY26E |
|-------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Key Metrics | | | | | |
| P/E (reported) (x) | nm | 121.3 | 76.9 | 35.4 | 24.1 |
| Core P/E (x) | nm | 85.8 | 76.9 | 35.4 | 24.1 |
| Core FD P/E (x) | nm | 88.8 | 78.4 | 35.2 | 23.5 |
| P/BV (x) | 5.1 | 3.5 | 7.0 | 5.7 | 4.4 |
| P/NTA (x) | 5.1 | 3.5 | 7.0 | 5.6 | 4.4 |
| Net dividend yield (%) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| FCF yield (%) | nm | 8.0 | 1.8 | 4.2 | 5.5 |
| EV/EBITDA (x) | nm | 29.6 | 44.2 | 26.0 | 17.8 |
| EV/EBIT (x) | nm | 67.6 | 68.8 | 33.1 | 21.4 |
| INCOME STATEMENT (USD m) | | | | | |
| Revenue | 12,449.7 | 13,063.6 | 16,346.6 | 19,851.3 | 23,183.0 |
| EBITDA | (704.2) | 783.5 | 1,226.0 | 2,048.7 | 2,878.0 |
| Depreciation | (428.3) | (440.8) | (438.3) | (442.2) | (476.9) |
| Amortisation | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| EBIT | (1,132.6) | 342.7 | 787.7 | 1,606.5 | 2,401.1 |
| 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 | 1,007.2 | 1,923.6 | 2,729.1 |
| Income tax | (168.4) | (262.7) | (279.9) | (320.7) | (328.3) |
| 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 | 715.3 | 1,590.9 | 2,388.9 |
| Core net profit | (1,296.5) | 268.6 | 715.3 | 1,590.9 | 2,388.9 |
| BALANCE SHEET (USD m) | | | | | |
| Cash & Short Term Investments | 7,579.4 | 4,221.4 | 5,173.4 | 7,509.2 | 10,673.0 |
| Accounts receivable | 268.8 | 262.7 | 627.0 | 815.8 | 952.7 |
| Inventory | 109.7 | 125.4 | 154.4 | 182.9 | 203.9 |
| Property, Plant & Equip (net) | 1,387.9 | 1,207.7 | 1,274.8 | 1,443.1 | 1,676.8 |
| 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 | 13,280.3 | 13,603.9 | 13,860.9 |
| Total assets | 17,002.8 | 18,883.2 | 20,575.7 | 23,635.7 | 27,463.2 |
| ST interest bearing debt | 88.4 | 146.7 | 146.7 | 146.7 | 146.7 |
| Accounts payable | 258.6 | 342.5 | 284.9 | 237.5 | 160.4 |
| 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 | 9,063.0 | 9,935.0 | 10,705.0 |
| Total Liabilities | 11,192.0 | 12,185.6 | 12,563.9 | 13,388.3 | 14,081.1 |
| Shareholders Equity | 5,715.7 | 6,593.8 | 7,896.0 | 10,119.7 | 13,242.5 |
| Minority Interest | 95.1 | 103.8 | 115.7 | 127.7 | 139.6 |
| Total shareholder equity | 5,810.8 | 6,697.6 | 8,011.7 | 10,247.4 | 13,382.1 |
| Total liabilities and equity | 17,002.8 | 18,883.2 | 20,575.7 | 23,635.7 | 27,463.2 |
| CASH FLOW (USD m) | | | | | |
| Pretax profit | (1,134.4) | 543.2 | 1,007.2 | 1,923.6 | 2,729.1 |
| Depreciation & amortisation | 428.3 | 440.8 | 438.3 | 442.2 | 476.9 |
| Adj net interest (income)/exp | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Change in working capital | (1,275.0) | 359.5 | (283.6) | 280.0 | 274.3 |
| Cash taxes paid | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other operating cash flow | 925.4 | 736.1 | 310.5 | 315.5 | 409.1 |
| Cash flow from operations | (1,055.7) | 2,079.7 | 1,472.3 | 2,961.4 | 3,889.3 |
| Capex | (924.2) | (241.6) | (490.4) | (595.5) | (695.5) |
| Free cash flow | (1,979.9) | 1,838.1 | 981.9 | 2,365.8 | 3,193.8 |
| 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) | (5,314.1) | 75.1 | 70.0 |
| Effect of exch rate changes | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net cash flow | (4,422.7) | 16.9 | (4,332.1) | 2,441.0 | 3,263.8 |

| FYE 31 Dec | FY22A | FY23A | FY24E | FY25E | FY26E |
|--|-----------|-----------|-----------|-----------|-----------|
| Key Ratios | | | | | |
| Growth ratios (%) | | | | | |
| Revenue growth | 25.1 | 4.9 | 25.1 | 21.4 | 16.8 |
| EBITDA growth | nm | nm | 56.5 | 67.1 | 40.5 |
| EBIT growth | nm | nm | 129.9 | 103.9 | 49.5 |
| Pretax growth | nm | nm | 85.4 | 91.0 | 41.9 |
| Reported net profit growth | nm | nm | 166.3 | 122.4 | 50.2 |
| Core net profit growth | nm | nm | 166.3 | 122.4 | 50.2 |
| Profitability ratios (%) | | | | | |
| EBITDA margin | nm | 6.0 | 7.5 | 10.3 | 12.4 |
| EBIT margin | nm | 2.6 | 4.8 | 8.1 | 10.4 |
| Pretax profit margin | nm | 4.2 | 6.2 | 9.7 | 11.8 |
| Payout ratio | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| DuPont analysis | | | | | |
| Net profit margin (%) | nm | 2.1 | 4.4 | 8.0 | 10.3 |
| Revenue/Assets (x) | 0.7 | 0.7 | 0.8 | 0.8 | 0.8 |
| Assets/Equity (x) | 3.0 | 2.9 | 2.6 | 2.3 | 2.1 |
| ROAE (%) | na | na | na | na | na |
| ROAA (%) | (7.3) | 1.5 | 3.6 | 7.2 | 9.4 |
| Liquidity & Efficiency | | | | | |
| Cash conversion cycle | 3.4 | (1.8) | 3.2 | 10.2 | 13.6 |
| Days receivable outstanding | 9.5 | 7.3 | 9.8 | 13.1 | 13.7 |
| Days inventory outstanding | 5.6 | 5.9 | 5.3 | 5.3 | 5.4 |
| Days payables outstanding | 11.7 | 15.0 | 12.0 | 8.3 | 5.6 |
| Dividend cover (x) | nm | nm | nm | nm | nm |
| Current ratio (x) | 1.8 | 1.4 | 1.6 | 1.7 | 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 | 2.6 | 1.6 | 1.1 |
| Capex/revenue (%) | 7.4 | 1.8 | 3.0 | 3.0 | 3.0 |
| Net debt/ (net cash) | (4,152.3) | (1,005.7) | (1,957.6) | (4,293.4) | (7,457.2) |

Source: Company; Maybank IBG Research

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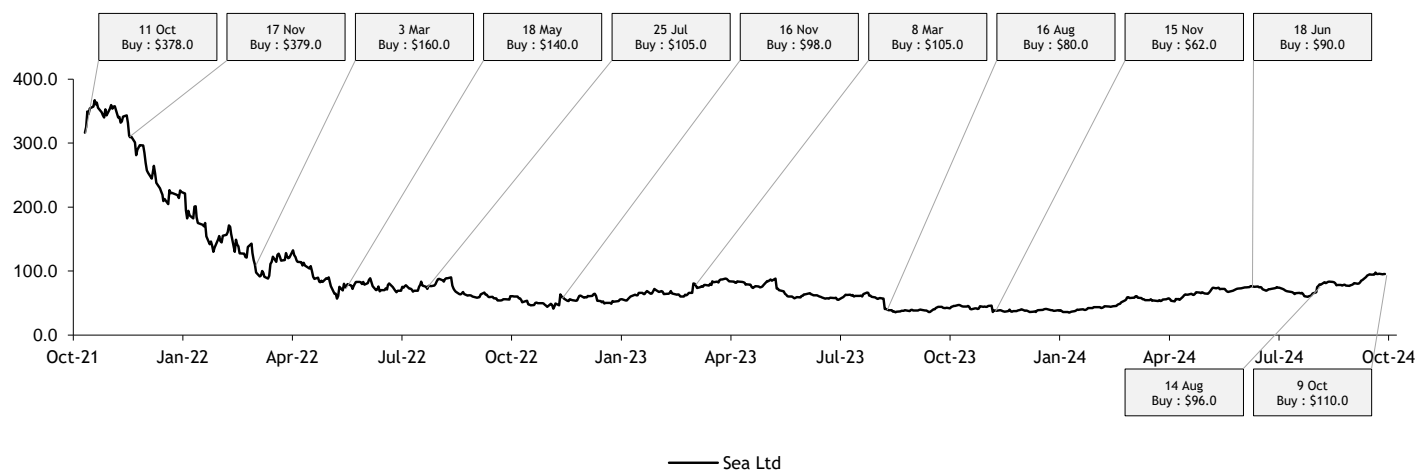
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