

Sea Limited

4Q preview: A stable quarter; but too early to call turnaround

Reiterate Rating: NEUTRAL | PO: 46.00 USD | Price: 40.63 USD

4Q: E-com GMV strong, spends lower= Positive net income

We expect Sea to report a small net income profit of \$54 mn in 4Q (vs 3Q loss of \$150 mn). We note that for most of 4Q, Tiktok was not present in Indonesia (returned on 12/12) leading to lower competitive intensity in the quarter.

For Shopee, we expect GMV to increase 30% yoy to \$23.4 bn mainly led by low base effect and more discounts. We model take-rate to marginally decline qoq to 11%, leading to e-commerce revenues of \$2.6 bn. While Shopee's live streaming investments remained high in 4Q, we expect lower competition to lead to adj. EBITDA losses declining to -\$325 mn (4Q: -\$346 mn).

For Gaming, we expect subscriber momentum to remain steady qoq to c.544 mn and est. revenues to marginally increase 2% qoq to 604 mn. 4Q also witnesses the annual professional Free Fire world championship tournament. This is largely a branding event which leads to higher expenses but not necessarily incremental revenue growth. We hence expect gaming EBITDA margins to decline 236 bps to 50%.

For DFS, we expect the business to maintain incremental revenue growth of \$20 mn, translating to \$506 mn revenues. We expect qoq improvement in operating income to continue.

E-commerce competition likely to remain high in 1H24

While we consider 4Q to be a stable quarter, we think the key thing to watch from a competitive perspective is Tiktok's aggression. We see risks of competition increasing in Indonesia especially after the 4-month trial period of Tiktok-Tokopedia (assuming government approves deal). This puts risks of higher expenses picking up in future for Shopee and hence increasing volatility in the earnings. Mgmt comments on outlook for 2024 and continued investments -particularly in live streaming would be key to watch-out for. We tweak our FY24-25E EPS by 0.8-0.9% (FY23 EPS rises more on low-base), leading to our PO moving marginally to \$46 (from \$45). Reiterate Neutral on Sea as we remain concerned of risks of higher competition in the e-commerce segment.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
Net Income (Adjusted - mn)	(2,010)	(1,399)	314	718	1,346
EPS	(3.96)	(2.97)	0.563	1.29	2.41
EPS Change (YoY)	-16.7%	24.9%	NM	128.5%	87.5%
Dividend / Share	0	0	0	0	0
Free Cash Flow / Share	(0.759)	(3.12)	3.66	(1.43)	1.54
Valuation (Dec)					
P/E	NM	NM	72.17x	31.58x	16.84x
EV / EBITDA*	NM	NM	25.03x	16.12x	9.40x
Free Cash Flow Yield*	-1.74%	-7.45%	9.00%	-3.52%	3.79%

* For full definitions of *IQmethod*SM measures, see page 7.

30 January 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	45.00	46.00
2023E EPS	0.35	0.56
2024E EPS	1.27	1.29
2025E EPS	2.39	2.41

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Stock Data

Price	40.63 USD
Price Objective	46.00 USD
Date Established	30-Jan-2024
Investment Opinion	C-2-9
52-Week Range	34.35 USD-88.84 USD
Mrkt Val / Shares Out (mn)	22,676 USD / 558.1
Average Daily Value (mn)	339.60 USD
Free Float	11.0%
BofA Ticker / Exchange	SE / NYS
Bloomberg / Reuters	SE US / SE.N
ROE (2023E)	5.4%
Net Dbt to Eqty (Dec-2022A)	-27.12%

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Refer to important disclosures on page 8 to 10. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.

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Timestamp: 30 January 2024 12:40PM EST

iQprofileSM Sea Limited

Key Income Statement Data (Dec)	2021A	2022A	2023E	2024E	2025E
(US\$ Millions)					
Sales	9,955	12,450	13,143	15,637	18,489
Gross Profit	3,764	4,989	5,871	7,041	8,400
Sell General & Admin Expense	(4,803)	(5,025)	(4,461)	(5,310)	(5,804)
Operating Profit	(1,583)	(1,133)	310	716	1,551
Net Interest & Other Income	(132)	(322)	266	265	268
Associates	0	0	0	0	0
Pretax Income	(1,715)	(1,454)	577	981	1,819
Tax (expense) / Benefit	(333)	(168)	(244)	(245)	(455)
Net Income (Adjusted)	(2,010)	(1,399)	314	718	1,346
Average Fully Diluted Shares Outstanding	518	542	558	558	558

Key Cash Flow Statement Data

Net Income	(2,053)	(1,611)	314	718	1,346
Depreciation & Amortization	278	454	450	464	473
Change in Working Capital	(787)	(1,083)	(223)	(1,587)	(945)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	2,771	1,185	2,041	254	571
Cash Flow from Operations	209	(1,056)	2,582	(151)	1,446
Capital Expenditure	(602)	(635)	(540)	(647)	(585)
(Acquisition) / Disposal of Investments	(500)	0	0	0	0
Other Cash Inflow / (Outflow)	(2,665)	(1,794)	(168)	236	239
Cash Flow from Investing	(3,767)	(2,429)	(708)	(412)	(346)
Shares Issue / (Repurchase)	3,498	0	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Cash Flow from Financing	7,402	400	50	50	50
Free Cash Flow	(394)	(1,691)	2,042	(799)	860
Net Debt	(4,994)	(1,576)	(3,450)	(2,887)	(3,987)
Change in Net Debt	(920)	3,418	(1,874)	563	(1,099)

Key Balance Sheet Data

Property, Plant & Equipment	1,680	2,346	1,306	1,506	1,588
Other Non-Current Assets	1,941	1,969	2,352	1,904	1,933
Trade Receivables	NA	NA	NA	NA	NA
Cash & Equivalents	9,248	6,030	7,954	7,441	8,591
Other Current Assets	5,888	6,658	5,802	7,905	9,353
Total Assets	18,756	17,003	17,415	18,756	21,465
Long-Term Debt	3,967	4,096	4,146	4,196	4,246
Other Non-Current Liabilities	188	191	1,278	1,327	2,127
Short-Term Debt	286	358	358	358	358
Other Current Liabilities	6,890	6,577	5,499	6,014	6,517
Total Liabilities	11,332	11,222	11,281	11,895	13,249
Total Equity	7,424	5,811	6,134	6,861	8,216
Total Equity & Liabilities	18,756	17,033	17,415	18,756	21,465

iQmethodSM - Bus Performance*

Return On Capital Employed	-15.7%	-8.2%	3.3%	6.4%	10.2%
Return On Equity	-37.3%	-21.3%	5.4%	11.2%	18.1%
Operating Margin	-15.9%	-9.1%	2.4%	4.6%	8.4%
EBITDA Margin	-13.1%	-5.5%	5.8%	7.5%	10.9%

iQmethodSM - Quality of Earnings*

Cash Realization Ratio	NM	NM	8.2x	-0.2x	1.1x
Asset Replacement Ratio	2.2x	1.4x	1.2x	1.4x	1.2x
Tax Rate (Reported)	NM	NM	42.4%	25.0%	25.0%
Net Debt-to-Equity Ratio	-67.3%	-27.1%	-56.2%	-42.1%	-48.5%
Interest Cover	-11.4x	-7.3x	7.5x	15.8x	33.9x

Key Metrics

* For full definitions of iQmethodSM measures, see page 7.

Company Sector

Internet/e-Commerce

Company Description

Sea Limited is a mobile and PC gaming platform and developer (Garena) and an e-commerce marketplace operator (Shopee) in ASEAN, Taiwan and Brazil. Its first self-developed game, "Free Fire," has a global user base. Sea also runs a digital payments platform supporting the two businesses (SeaMoney). Sea Ltd is headquartered in Singapore and was founded in 2009.

Investment Rationale

We have a Neutral rating on Sea Limited. In our view, it is placed well in to ride e-com boom in SE Asia given increasingly dominant online marketplace (Shopee), while its expansion into Brazil offers further growth upside potential in LT. However, we see growth slowdown, high competition and expect lower GMV growth on e-com and continued slow down of Free Fire/overhang from lack of a new game. TikTok also poses competitive risks on e-com and Shopee seeks to defend its market leadership position

Stock Data

Price to Book Value

3.8x

4Q preview:

Exhibit 1: Sea 4Q preview estimates

Expect 7% yoy increase in revenues

\$mn	4Q22	3Q23	4Q23E	QoQ	YoY
- Digital entertainment	949	592	604	2%	-36%
- E-commerce	2,103	2,232	2,586	16%	23%
- Digital financial services & others	400	486	506	4%	27%
Total revenues	3,452	3,310	3,696	12%	7%
Gross profit	1,697	1,441	1,669	16%	-2%
Gross margin	49.2%	43.5%	45.1%	1.6pps	-4pps
Operating income/ (loss)	343	(128)	29	-123%	
Net loss	427	(150)	54	-136%	
E-com GMV	18,000	20,100	23,426	17%	30%
Take rates %	11.7%	11.1%	11.0%	-0.1pps	-0.6pps

Source: BofA Global Research estimates, company report

BofA GLOBAL RESEARCH

Glossary:

S&M: Sales & marketing expenses

GMV: Gross merchandise value

MAU/DAU: Monthly/daily active users



Price objective basis & risk

Sea Limited (SE)

Our PO of USD46 is based on a sum-of-the-parts valuation. We value Garena's gaming business at USD10 per share or 5x 2024E EV/EBITDA, which is at a discount to global peers.

The Shopee business is valued at USD24 per share based on 0.15x 2024E EV/GMV and in our view fairly reflects Shopee's growth, dominant position but rising competition and optionality in Brazil.

We value its Digital Banking unit at 1x EV/IC given growth optionality, its SeaMoney digital payments business at 0.05x EV/TPV for 2024E, and Sea Capital PE fund at 1.2x EV/IC.

Upside risks: 1) faster-than-expected revenue growth with profitability, 2) good traction of more self-developed games

Downside risks: 1) continued higher losses, 2) higher competition in SE Asia e-com markets, leading to slowing revenue growth

Analyst Certification

I, Sachin Salgaonkar, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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APR - Internet, Media and Software Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Agora	API	API US	Daley Li, CFA
	AiHuiShou	REER	REER US	Joyce Ju
	Alibaba Group	BABA	BABA US	Joyce Ju
	Alibaba Group	BABAF	9988 HK	Joyce Ju
	Alibaba Health	ALBHF	241 HK	Miranda Zhuang, CFA
	Baidu.com	BIDU	BIDU US	Miranda Zhuang, CFA
	Baidu.com	BAIDF	9888 HK	Miranda Zhuang, CFA
	Bilibili	BILI	BILI US	Lei Zhang
	Bilibili	BLBLF	9626 HK	Lei Zhang
	CAR Group	CRSLF	CAR AU	Sriharsh Singh
	Chinasoft International	CFTLF	354 HK	Daley Li, CFA
	Cloud Music	XWJF	9899 HK	Lei Zhang
	Com2uS Corp	XOYAF	078340 KS	Jeehoon Jeong, CFA
	DBAPPSecurity	XDBAF	688023 CH	Daley Li, CFA
	Delhivery	XDVL	DELHIVER IN	Sachin Salgaonkar
	Dingdong	DDL	DDL US	Joyce Ju
	East Money	XEQTF	300059 CH	Michael Li
	Grab Holdings	GRAB	GRAB US	Sachin Salgaonkar
	Hello Group	MOMO	MOMO US	Lei Zhang
	Huntsun Technologies	XYTGF	600570 CH	Daley Li, CFA
	HYBE	XBGOF	352820 KS	Susie Lee
	iQIYI	IQ	IQ US	Lei Zhang
	JD Health	JDHF	6618 HK	Miranda Zhuang, CFA
	JD.com	JD	JD US	Joyce Ju
	JD.com	JDCMF	9618 HK	Joyce Ju
	JYP Entertainment	ALNNF	035900 KS	Susie Lee
	Kingdee International Software	KGDEF	268 HK	Daley Li, CFA
	Kingsoft Corporation	KSFTF	3888 HK	Daley Li, CFA
	Kuaishou	KUASF	1024 HK	Lei Zhang
	Makemytrip Limited	MMYT	MMYT US	Sachin Salgaonkar
	Meituan	MPNGF	3690 HK	Lei Zhang
	Naver Corporation	NHNCF	035420 KS	Susie Lee
	NetEase	NETTF	9999 HK	Lei Zhang
	NetEase, Inc	NTES	NTES US	Lei Zhang
	Nine Entertainment Company	NNMTF	NEC AU	Alice Lei, CFA
	Paytm	XUXBF	PAYTM IN	Sachin Salgaonkar
	Pinduoduo Inc.	PDD	PDD US	Joyce Ju
	Plan B Media PCL	XMKTF	PLANB TB	Thititthep Nophaket
	PT Bukalapak.com	BKLPF	BUKA IJ	Sachin Salgaonkar
	PVR-Inox Ltd	PVRLF	PVRINOX IN	Sachin Salgaonkar
	REA Group	RPGRF	REA AU	Sriharsh Singh
	Tencent Holdings	TCTZF	700 HK	Miranda Zhuang, CFA
	Tencent Music	TME	TME US	Lei Zhang
	Tencent Music	XWFWF	1698 HK	Lei Zhang
	Tongcheng Travel	TNGCF	780 HK	Janet Yang
	Trip.com Group	TCOM	TCOM US	Joyce Ju
	Trip.com Group	TRPCF	9961 HK	Joyce Ju
	TUHU Car	XTCRF	9690 HK	Miranda Zhuang, CFA
	Venustech	XVCGF	002439 CH	Daley Li, CFA
	Vipshop Holdings	VIPS	VIPS US	Joyce Ju



APR - Internet, Media and Software Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Xero Limited	XROLF	XRO AU	Sriharsh Singh
	YG Entertainment	XYEIF	122870 KS	Susie Lee
	YY	YY	YY US	Lei Zhang
	Zomato Limited	XMWRF	ZOMATO IN	Sachin Salgaonkar

NEUTRAL

	AfreecaTV	WNTHF	067160 KS	Susie Lee
	Autohome	ATHM	ATHM US	Miranda Zhuang, CFA
	Autohome	XXYZF	2518 HK	Miranda Zhuang, CFA
	Baozun	BZUN	BZUN US	Joyce Ju
	Coupang	CPNG	CPNG US	Susie Lee
	Glodon Company	XGCOF	002410 CH	Daley Li, CFA
	GoTo Group	GTOFF	GOTO IJ	Sachin Salgaonkar
	Huya	HUYA	HUYA US	Lei Zhang
	Kakao Corp.	DAUCF	035720 KS	Susie Lee
	KE Holdings	BEKE	BEKE US	Miranda Zhuang, CFA
	KE Holdings	XSQRF	2423 HK	Miranda Zhuang, CFA
	Kingsoft Cloud	KC	KC US	Daley Li, CFA
	Kingsoft Cloud	KCLHF	3896 HK	Daley Li, CFA
	Krafton	XXINF	259960 KS	Susie Lee
	NCSOFT	NCSCF	036570 KS	Susie Lee
	Nykaa	XQQGF	NYKAA IN	Sachin Salgaonkar
	PB Fintech	XPFXF	POLICYBZ IN	Sachin Salgaonkar
	PropertyGuru	PGRU	PGRU US	Sachin Salgaonkar
	Sea Limited	SE	SE US	Sachin Salgaonkar
	Seek Limited	SKLTF	SEK AU	Sriharsh Singh
	Seven West Media	WANHF	SWM AU	Alice Lei, CFA
	The ONE Enterprise	XUFCF	ONEE TB	Thititthep Nophaket
	VGI Public Company Limited	XZQHF	VGI TB	Thititthep Nophaket
	Weimob	WEMXF	2013 HK	Daley Li, CFA
	WiseTech Global Limited	WTCHF	WTC AU	Ware Kuo
	XD Inc.	XDNCF	2400 HK	Lei Zhang
	Yonyou Network	XYNIF	600588 CH	Daley Li, CFA

UNDERPERFORM

	Altium Limited	ALMFF	ALU AU	Ware Kuo
	Appen Ltd	APPEF	APX AU	Ware Kuo
	BEC World	XBHJF	BEC TB	Thititthep Nophaket
	CJ ENM	CJHOF	035760 KS	Susie Lee
	Douyu	DOYU	DOYU US	Lei Zhang
	Indiamart InterMesh Limited	XEITF	INMART IN	Sachin Salgaonkar
	Info Edge	IFOEF	INFOE IN	Sachin Salgaonkar
	Kakao Games	XKKGf	293490 KS	Susie Lee
	Kingsoft Office	XBKOF	688111 CH	Daley Li, CFA
	Ming Yuan Cloud	XWTAF	909 HK	Daley Li, CFA
	NavInfo	XWLHF	002405 CH	Daley Li, CFA
	Netmarble	XLGHF	251270 KS	Susie Lee
	Pearl Abyss Corp	XEPAF	263750 KS	Susie Lee
	Ping An Healthcare and Technology	PANHF	1833 HK	Miranda Zhuang, CFA
	Qi An Xin	XQTDF	688561 CH	Daley Li, CFA
	Technology One Limited	THNOF	TNE AU	Ware Kuo
	ThunderSoft	XSTSf	300496 CH	Daley Li, CFA
	Weibo Corporation	WB	WB US	Miranda Zhuang, CFA
	Weibo Corporation	WEIBF	9898 HK	Miranda Zhuang, CFA
	Zee Entertainment Enterprises	XZETF	Z IN	Sachin Salgaonkar
	Zip Co Limited	ZIZTF	ZIP AU	Ware Kuo

RVW

	Dada Nexus	DADA	DADA US	Lei Zhang
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iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

iQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

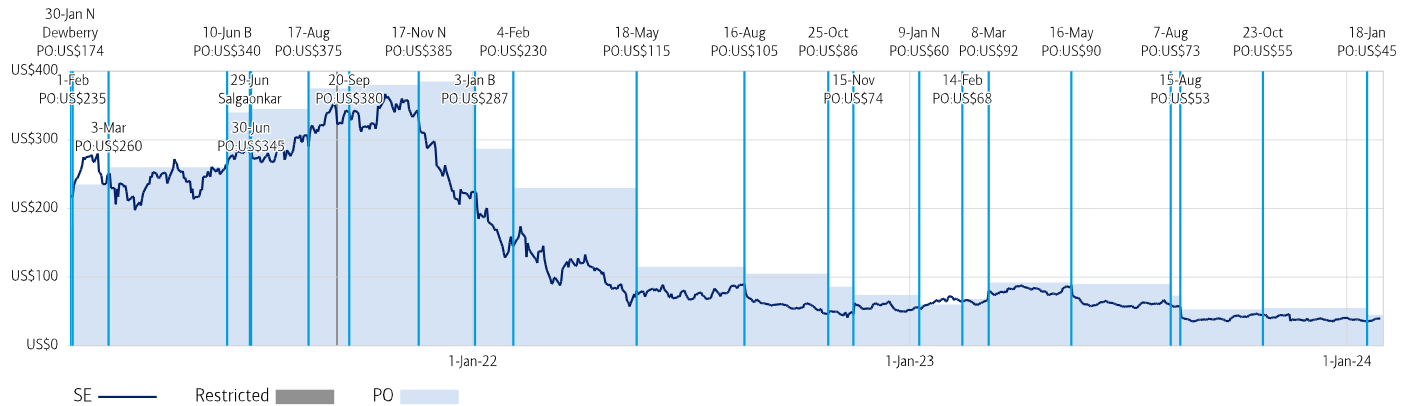
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Sea Limited (SE) Price Chart



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Equity Investment Rating Distribution: Technology Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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